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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1984

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

Administrative Conference of the United States
Advisory Commission on Intergovernmental Relations
Advisory Committee on Federal Pay
Committee for Purchase From the Blind and Other Severely Handicapped
Congressional Witness
Department of the Treasury
Executive Office of the President
Federal Election Commission
Federal Labor Relations Authority
General Services Administration
Merit Systems Protection Board
Nondepartmental witnesses
Office of Personnel Management
U.S. Postal Service
U.S. Tax Court

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COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEE ON TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT

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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1984

TUESDAY, MARCH 15, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2:05 p.m., in room SD–124, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

U.S. POSTAL SERVICE

STATEMENT OF WILLIAM F. BOLGER, POSTMASTER GENERAL

ACCOMPANIED BY JAMES FINCH, SENIOR ASSISTANT POSTMASTER GENERAL, FINANCE

OPENING STATEMENT

Senator ABDNOR. The Subcommittee on Treasury, Postal Service and General Government will come to order.

Good afternoon. Today is the first day of our hearings of the subcommittee on our fiscal year 1984 budget for the various agencies that come under our jurisdiction.

So this afternoon we will hear from a number of groups. We will hear from the President's Advisory Committee on Federal Pay, the Committee for Purchase from the Blind and Other Severely Handicapped, the Federal Elections Commission, and the U.S. Postal Service.

I need not tell you, because I am sure you are equally as busy, but we are in session right now and we never know what afternoon to pick. I picked one on which there will be one vote after the other. We hope it doesn't interfere too much. We will try to do the best we can here. We may run short of time. I hope not.

I would ask, because of that, that we try to be as brief as we can, that you summarize your statements, and again I do want to assure each of you that your entire statement will be made part of the record.

I think we have done a little changing here. I think we are first going to hear from William F. Bolger, the Postmaster General of the United States, who has a number of his people with him. We want to welcome you. It is almost a year since we had you up here last time. We look forward to your return.

Mr. Bolger, proceed in any fashion, or in anyway you want.

PREPARED STATEMENT

Mr. Bolger. Thank you, Senator. I will summarize to save time here this afternoon, and leave more time for questions.

I am accompanied by Jim Finch, our Assistant Senior Postmaster General for Finance. He is our money man.

[The statement follows:]

STATEMENT OF WILLIAM F. BOLGER

Mr. Chairman, for Fiscal Year 1984, the President has requested a total appropriation to the Postal Service of $400 million. This is a reduction of $389 million from the amount currently scheduled to be provided for FY 1983 under last December's continuing resolution.

REVENUE FORGONE

All of the $400 million request for FY 1984 is for revenue forgone to fund statutory authorizations for reduced rates of postage. The request is $360 million less than the authorized amount under the Omnibus Budget Reconciliation Act of 1981. It is about $610.1 million less than would have been necessary to fund the full subsidies authorized by law before the reductions in the authorizations enacted in 1981.

As authorized, the revenue forgone subsidy is composed of two parts. The first part is the continuing appropriation, which is based on a permanent authorization to pay the reduced-rate mailers' share of the overhead of the postal system, as determined in postal rate proceedings, plus all costs for free mail for the blind and overseas voting. The other part, the phasing appropriation, has been designed to extend over a certain number of years the price increases which fall to the subsidized mail categories when the rates are changed for all mailers. The gradual phase-in of price increases was intended to permit the mailers who had been the most heavily subsidized over the years to adjust more easily to higher price levels covering their full attributable costs.

Under the December continuing resolution, all preferred rate mailers had their prices increased to the step 14 level on the 16-step phasing schedule established pursuant to law.

The $400 million request for FY 1984 is less than the amount which would be needed to fund just the continuing portion of the authorized price reductions. In the absence of specific allocation instructions, we would assume the Congressional intent is that all of the subsidized mailers other than the free mail categories, such as free mail for the blind, are to participate in the required adjustment, with their prices increasing to levels above step 16 as shown in the tables attached to this statement.

With regard to the policy question of the amount that Congress should appropriate for this subsidy program, the Postal Service believes that it should continue to defer to the President and the Congress.

PUBLIC SERVICE APPROPRIATION

No funding is requested by the President for FY 1984 for the public service authorization, which was reduced by the Omnibus Budget Reconciliation Act of 1981 to zero. The amount provided for FY 1983 for this item under the continuing resolution was also zero.

This year's request confirms the decision made in 1981 to discontinue this subsidy as part of the general budgetary economy efforts under the President's program to hold down the Federal deficit. The Postal Service accepts this decision and has focused its efforts to make up for the loss of these funds on doing its job more efficiently and therefore more cost effectively.

FY 1982 was a very good year for the Postal Service. It was the eighth straight year in which the Postal Service managed to increase its overall productivity, this time by 3.6 percent during the year. For the fiscal year the Postal Service counted a net income of $802 million, which was achieved primarily due to a combination of increased mail volume and productivity and lower inflation. These favorable results help to promote rate stability. While our budget estimates for FY 1983 anticipated a loss of $285 million, we are trying to get to at least a break-even year for the second year in a row.

The recent medicare and health benefit changes and proposals concerning retirement all place a premium on cost control if we are going to maintain reasonable rate stability in the future. We intend to continue to press the innovations and sound management which are required to keep the Postal Service in good financial condition in the years ahead. In FY 1984 we expect to complete the first phase of deployment of the automated mail sorting technology which is now starting to arrive. We expect to maximize the benefit from this machinery by attracting mailer participation in the ZIP + 4 program with a rate incentive and also plan to automate in other areas such as window service.

BORROWING RESTRICTION

As part of a credit control program, the Budget transmitted in January resubmits the special fiscal year restrictions on Postal Service borrowing authority which have been proposed in recent years in place of the limits under permanent law. The proposal would limit borrowing to no more than $1 billion, including no more than $500 million for operating expenses. Also, there would be a 12-month pay-back requirement for the operating portion but not the capital portion.

I'm happy to say that in my tenure as Postmaster General we've been able to avoid borrowing. I personally hope to be able to continue that record. It would be particularly misguided, in my opinion, to use our borrowing authority for operating purposes, except in the gravest emergency. Nevertheless, we have to recognize the potential danger of unexpected temporary cash flow problems on a large scale, particularly since our postage rates are frequently challenged and are subjects of litigation much of the time. The proposed additional borrowing limits could severely undercut the usefulness of operating borrowing as a safety valve, particularly because of the pay-back requirement and the fact that the new limits apparently would not take into account amounts paid back (as our permanent authority does.)

In my view, the Postal Service has used its present limited borrowing authority in a responsible manner and additional fiscal year limitations are not necessary.

I will try to answer any questions you may have.

COMPARATIVE POSTAL PRICES FOR ILLUSTRATIVE MAILINGS

Adjusted for Appropriation Shortfall at Various Levels

GENERAL NOTE

These charts assume no change in the current unsubsidized rate levels. If rate levels were to change, the prices for the subsidized mailings in the chart would require revision. At least two possible developments could produce such changes.

(1) The Governors are now considering a recommended decision from the Postal Rate Commission to revise permanent third-class rates. If these rates should change, the illustrative third-class prices in the table might require revision.

(2) If general rate increases should be proposed later this calendar year and should take effect some time in FY 1984, all of the prices in the table may require revision.

COMPARATIVE POSTAL PRICES FOR ILLUSTRATIVE MAILINGS
Adjusted for Appropriation Shortfall
Revenue orgone Appropriations for all Classes F ced Proportionately - FY 1984 1/

	Current Price Effective January 9, 1983 (1)	Price at Total Revenue Forgone Appropriation of $802 Million 2/		Price at Total Revenue Forgone Appropriation of $760 Million 3/		Price at Total Revenue Forgone Appropriation of $400 Million 4/		Regular (Unsubsidized) Rate Level	
		Effective 10/1/83 (2)	Increase Over (1) (3)	Effective 10/1/83 (4)	Increase Over (1) (5)	Effective 10/1/83 (6)	Increase Over (1) (7)	Effective 10/1/83 (8)	Increase Over (1) (9)
Second Class Publications In County Rural Newspaper: Frequency: Weekly Weight: 4 ounces Advertising: 50% All Delivered In County Presorted to 5 Digits	3.6¢	3.9¢	8%	4.1¢	14%	7.1¢	97%	9.1¢	153%
Nonprofit Veteran's Magazine Frequency: Monthly Weight: 4 ounces Advertising: 20% New York to Chicago Presorted to 5 Digits	6.6¢	7.3¢	11%	7.8¢	18%	8.7¢	32%	9.2¢	39%
Classroom Classroom Publication Frequency: Weekly Weight: 12 ounces Advertising: 15% New York to Chicago 32 Copies per piece	6.7¢	7.0¢	4%	7.2¢	7%	13.6¢	103%	17.3¢	158%

	Current Price Effective January 9, 1983 (1)	Price at Total Revenue Forgone Appropriation of $802 Million 2/		Price at Total Revenue Forgone Appropriation of $760 Million 3/		Price at Total Revenue Forgone Appropriation of $400 Million 4/		Regular (Unsubsidized) Rate Level	
		Effective 10/1/83 (2)	Increase Over (1) (3)	Effective 10/1/83 (4)	Increase Over (1) (5)	Effective 10/1/83 (6)	Increase Over (1) (7)	Effective 10/1/83 (8)	Increase Over (1) (9)
Science of Agriculture Rural Agricultural Newspaper Frequency: Weekly Weight 4 ounces Advertising: 50% Within 150 miles of entry Presorted to 5 Digits	8.4¢	8.4¢	0%	8.5¢	1%	8.9¢	6%	9.1¢	8%
Under 5,000 Copies Newspaper Frequency: Weekly Weight: 4 ounces Advertising: 50% Within 150 miles of entry Presorted to 5 Digits	7.2¢	7.6¢	6%	8.0¢	11%	8.7¢	21%	9.1¢	26%
Third Class Nonprofit Fund-Raising Letter Weight: 3/4 ounce Nationwide Distribution									
Presorted to 5 Digits	4.3¢	4.7¢	9%	4.9¢	14%	7.6¢	77%	9.3¢	116%
Required Presort	5.2¢	5.6¢	8%	5.8¢	12%	8.9¢	71%	10.9¢	110%

	Current Price Effective January 9, 1983 (1)	Price at Total Revenue Forgone Appropriation of $802 Million 2/		Price at Total Revenue Forgone Appropriation of $760 Million 3/		Price at Total Revenue Forgone Appropriation of $400 Million 4/		Regular (Unsubsidized) Rate Level	
		Effective 10/1/83 (2)	Increase Over (1) (3)	Effective 10/1/83 (4)	Increase Over (1) (5)	Effective 10/1/83 (6)	Increase Over (1) (7)	Effective 10/1/83 (8)	Increase Over (1) (9)
Fourth Class Library Rate Book Between Libraries Weight: 2 pounds New York to Chicago	$0.47	$0.51	9%	$0.54	15%	$0.73	55%	$.86	83%

1/ These prices are appropriate only if prices are implemented on October 1, 1983. If the price implementation date is delayed, higher prices will be required to compensate for the period that lower prices were in effect. 2/ Phasing Step 15. 3/ Between Phasing Step 15 and Step 16.
4/ Price is above full price level.

BUDGET REQUEST

Mr. BOLGER. The appropriation recommended by the President for the U.S. Postal Service is $400 million. This $400 million request for 1984 is for revenue forgone to fund statutory authorizations for reduced rates of postage. The request is $360 million less than the authorized amount under the Omnibus Budget Reconciliation Act of 1981. It is about $610.1 million less than would have been necessary to fund the full subsidies authorized by law before the reductions in the authorizations enacted in 1981.

In December, all preferred rate mailers had their prices increased to the step 14 level on the 16-step phasing schedule established pursuant to law.

The $400 million request for fiscal year 1984 is less than the amount which would be needed to fund just the continuing portion of these authorized price reductions. We have submitted a chart for the record which will show how this impacts the organizations that the Congress is attempting to subsidize through these revenue forgone appropriations.

With respect to the public service appropriations which we used to get each year, the amount requested by the President for fiscal year 1984 is zero. There is no public service appropriation requested by the President. Last year, it was a mere $12 million. This action confirms the decision made in 1981 to discontinue the subsidy as a part of the general budgetary economy efforts under the President's program to hold down the deficit. The Postal Service will accept this without resorting to any changes in the level of service, and will try to absorb this in other ways, mainly by increasing our productivity.

FISCAL YEAR 1982 PERFORMANCE

We had a pretty good year in fiscal year 1982. We had an $802 million operating surplus. We anticipate a $285 million deficit in fiscal year 1983. The turndown in inflation has helped us immeasurably. I would expect, as we close the fiscal year on September 30, 1983, that we will probably get down to a break-even basis—living within our income—or we might possibly have a small operating surplus.

We have been able to recast our projections and because of this turndown in inflation, because of the increasing mail volume, and because of the increasing rate of productivity which we are achieving, we will be able to probably break even or maybe have a little operating surplus in fiscal year 1983.

BORROWING RESTRICTION

The President has proposed a borrowing restriction which will affect the Postal Service. We have not borrowed, I am happy to say, in my 5-year tenure in office and for 6 straight fiscal years. We have no intention of borrowing now. But we do not want to be restricted in our borrowing, either. We don't know where we are going to wind up on a cash flow basis. We are always involved in litigation of one type or another. We have problems back and forth on our pricing structure, and we really don't know where this might take us.

As I said, we don't intend to borrow, we have no plans to borrow, for either operating or capital purposes. As far as I am concerned, a manager, unless he gets desperate, you should not be doing it. But there are cases where you might come up with a problem and have to borrow.

For capital purposes, we are able to operate without borrowing. With high interest rates, I would have no intention to do so. Currently, we are able to borrow up to $2 billion a year if we need to, $1.5 billion for capital purposes and $500 million for operating expenses.

The proposal restricts our total borrowing to $1 billion in a given year, not more than $500 million for operating purposes. That $500 million for operating purposes, we would have to repay within 12 months.

Senator ABDNOR. That would probably be the most likely situation in which you would borrow, would it not? I mean in operations.

Mr. BOLGER. If I ever had any inclination to borrow in today's market with the still-too-high interest rates, as far as I am concerned it would be for capital purposes. Operating purposes would only be in an extreme emergency. What I am saying is that I don't think the restriction should be imposed, but restrictions or not, we have not formulated any plans to borrow for any purpose. We have been successful in avoiding that for the last 6 years, and would like to continue that on an indefinite basis.

That concludes the summary of my prepared statement. I appreciate your inserting the entire statement for the record, and the charts that accompany it.

REVENUE FOREGONE APPROPRIATIONS

Senator ABDNOR. Let me assure you that it will be part of the record.

We probably have very little to do with your agency other than revenue forgone. That creates a lot of interest out in the field. We hear a lot about that. I happen to be very interested in it. Could you elaborate a little more on that? You have a chart here. I guess the $400 million is going to leave us way short.

What were the figures for us in the Government to keep the commitment? There was a commitment, was there not, at one time? When it was devised and put into effect, was that a commitment on the part of the Government?

Mr. BOLGER. Yes; it is basically a commitment on the part of the Government. The Congress expected an increase in rates after postal reorganization, and decided that the rate of increase that was coming was a little bit too much for some of these nonprofit organizations, some of the small-town newspapers and publishers, to absorb.

So they put in a phasing schedule which had 16 steps. In the last few years that phasing has been accelerated because of the reductions in the revenue foregone appropriation, but it was a commitment at that time under the circumstances that were then prevelant.

Of course, with the deficit problems that have come up, we have had to look at those previous commitments concerning Postal Service activities, and all others. The recent administrations—this one and the previous one—have recommended accelerated rate phasing to the Congress.

Senator ABDNOR. Sitting here and knowing what you know, over the years do you see anything we might do to get more for the dollar and still be fair with these people? Are there abuses going on? Perhaps it is unfair to ask you that and go on the record. Do you see anything going on that we didn't anticipate or foresee at the time this agreement might have been reached?

Mr. BOLGER. No; the only thing I see is the worsening fiscal condition of the country which has led us to question what we can afford. I view this as a political decision to be made by the elected representatives of the people. I have not advocated continuing the subsidy, and I don't oppose continuing it. I think it is one of the best things we can do under these conditions for the Postal Service, to find a way to keep this mail coming from these organizations. We appreciate the business.

Absent any appropriations or assuming a reduction in appropriations, we will be trying to work with them to find ways to keep their mailing costs down.

NEXT GENERAL RATE INCREASE

Take our next general rate increase, for instance. We had anticipated that we would have a need for additional revenue from a rate increase by November 1983. I am happy to tell you that with the increase in productivity that we have experienced in the Postal Service, and also the downturn in inflation in this country, that we will go to at least March 1984, and probably a little bit longer than that, before we have to have our next price increases.

Senator ABDNOR. How much time do you need before you put that into effect? I mean, when you see it coming, how much time do you need? Several months in advance?

Mr. BOLGER. No less than 1 year, and here is the reasoning: We do have to prepare a rate case. We take a number of months to do it, and for a number of months leading up to this we need to know what our fiscal conditions are. Then we have to leave at least 10 months for the Postal Rate Commission to consider our rate filing.

Under the law, they have up to 10 months to render a decision. So we have to leave at least 10 months for that.

When you get a recommended decision from the Postal Rate Commission, you don't just turn around and put it all in overnight. The Governors of the Postal Service, those appointed by the President and confirmed by the Senate, have to consider this recommended decision in detail after they get it and really understand it, so they in turn can make the final decision on what our pricing structure is going to be.

You have to leave a couple of months for that, and you certainly don't turn around overnight and tell our field people that "starting tomorrow morning, we are changing the prices for postal services."

From the day we press the button and go with a rate case, after the Governors take action, we are talking about in the neighborhood of 12½ to 13 months, a lot of leadtime.

STATUS OF REVOLVING FUND

Senator ABDNOR. That is the end we don't worry about in this committee, but anyway, I was interested to know that.

During our hearings last year, we had some discussion regarding the revolving fund for payment to air carriers. What is the status today?

Mr. BOLGER. I have a great expert here, Jim Finch, who knows that much better than I. I will let him answer that question.

Mr. FINCH. Yes, Senator Abdnor, we have improved our administration of the fund substantially in the intervening year. We are now caught up to where we have invoices pending from U.S. flag carriers that are much less stale in terms of time. We have had many fewer than was the case last year. We are receiving some better responses than we have in the past, both in terms of administration and in settling our own accounts.

We are making significant strides. I think we are paid up to invoices that go back about 6 months or so. I think, as you will recall last year, we had some over 1 year in arrears.

As I explained last year, and it is still the case, all we can do is to try to settle our total postal accounts, whether we are debtor or creditor, with those foreign nations which have received service from American flag carriers. Once we receive a settlement of those accounts we replenish the $5 million revolving fund and immediately make appropriate payment to the flag carriers. I think it is in substantially better shape than 1 year ago, and we look for further improvement.

ZIP PLUS FOUR

Senator ABDNOR. Thank you.

On the subject of ZIP, is that shaping up pretty well for us now?

Mr. BOLGER. I am not saying the General Accounting Office, in the study they were asked to do by the Congress, gave us a resounding vote of confidence, but I think they recognize that we have to automate the Postal Service. They have reservations as to whether the price incentives we offer will be enough to get the mailers to use the ZIP plus four. I just happened to bring along a chart in case you did ask that question, to show you what productivity is all about in the Postal Service. The top red line is the amount of volume we are handling, and the bottom line is the number of employees that it takes to process and deliver this mail.

Since postal reorganization, we are in mechanization here, and the presort programs are in here—indicating. We have been able to take an aggregate increase in our productivity of 43 percent over 12 years. We are handling about 30 billion more pieces of mail and delivering it to 16 million more addresses that didn't even exist in 1971, with about 70,000 fewer employees.

We did that through attrition. We did not go through any great reduction in force and didn't have to resort to layoffs. We have just about exploited mechanization as far as we can, and the next step to help us to keep widening the gap is to go to automation. That is what we are doing. We are deploying automated equipment and, when restrictions are lifted on October 1, 1983, we are going to go out and get people interested, for a price incentive, on a voluntary basis in using ZIP plus four. When we do that we will be able to continue to widen this gap and increase productivity further. But we have to have the automation.

Senator ABDNOR. More and more, the numbers are picking up?

Mr. BOLGER. We don't have any real users yet because we are restricted from implementing it until October 1, 1983 by the Budget Reconciliation Act of 1981.

Senator ABDNOR. We will hopefully see that line keep dropping, the line on your chart.

Mr. BOLGER. That is what we need.

Senator ABDNOR. When you were talking, I was thinking if we get any more legislation like interest and dividends and banks, we are going to need twice as many people in the Post Office.

Mr. BOLGER. We are going to find out a way to do it without needing all those people, but we would love the mail.

VEHICLE PROCUREMENT

Senator ABDNOR. We are interested in GSA. They are under our committee, too. How is the situation with your motor vehicles? Do you trade at 6 years and 60,000 miles, or what?

Mr. BOLGER. We are currently on an 8-year cycle for replacement of vehicles. We were at 6, and moved to 8 years. We found out that, looking at maintenance costs and everything else, we could retain a vehicle for 2 more years.

We are currently looking for a new delivery vehicle that would allow us to go beyond an 8-year retention period. We are working on that right now. Currently, we procure on the average year about 17,000 vehicles. We are in the process of procuring some now.

We used to have the General Services Administration do our procurement for us. A year or so ago they decided they didn't want to continue that, and we in turn went our own way and did our own procurement.

Recently, they have discussed with us again taking over this procurement activity, but we are pretty much down the road for ourselves on it, and will continue that way.

Senator ABDNOR. I will follow your arrangement.

Well, Mr. Bolger and Mr. Finch, that is all. Do you have any questions?

We may submit questions to you at a later time. We thank you for coming and we appreciate your statements.

Mr. BOLGER. Thank you, Senator.

ADVISORY COMMITTEE ON FEDERAL PAY

STATEMENT OF MRS. LUCRETIA TANNER, EXECUTIVE DIRECTOR ACCOMPANED BY LILY MARY DAVID, CONSULTANT

PREPARED STATEMENT

Senator ABDNOR. Next we are going to hear from the Advisory Committee on Federal Pay. Mrs. Tanner will fill in for both herself and Mr. Rosow, the Chairman.

I know your agency may be the smallest in Government, but quality doesn't always depend on quantity. We are happy to have you. Is Mr. Rosow ill?

Mrs. TANNER. No; Mr. Rosow is out of the country. He wanted to be here, but he had other business. He asked me to represent the Advisory Committee.

Senator ABDNOR. I am sure it is in good hands. We welcome you to the committee, and ask you to summarize your statement, which is not very long anyway. You can present it anyway you want.

Mrs. TANNER. Let me introduce Lily Mary David, who has served as a consultant to the committee for a number of years, and who is an expert in the field of Federal compensation.

Senator ABDNOR. Fine. Welcome to the committee.

[The statement follows:]

STATEMENT OF JEROME M. ROSOW, CHAIRMAN

I am Jerome Rosow, Chairman of the Advisory Committee on Federal Pay. The committee was established by the Federal Pay Comparability Act of 1970 (Public Law 91-656) and is responsible for making recommendations to the President regarding the annual increase for Federal white-collar employees. It also reviews compensation policy recommendations and mediates between the President's pay agent and representatives of Federal employees on pay matters. As an appendix, I am attaching a brief summary of the authority for the committee.

The appropriation request for our committee for fiscal 1984 is $215,000—$15,000 more than our appropriation for fiscal 1983. Based on increases in GSA support services and other expenses, the $215,000 requested maintains operations at the current level. It will cover salaries and benefits of three full-time employees: an economist, a staff assistant, and a secretary; reimbursement of a part-time economic consultant; rent and operating expenses of our headquarters office; and salaries and travel expenses of the committee members when they are engaged in committee work.

Our mediation role between the pay agent and representatives of Federal employees has been resumed (mandated under Executive Order 12004). After a lapse of 5 years and the Council's resignation in 1978 in protest over an alternative plan, meetings were held in July and December 1982 and February 9, 1983. In its role as mediator, the committee seeks to promote a continuing dialog. We are also meeting with other representatives of Federal organizations to hear their views regarding pay and benefit changes.

The committee has always exercised careful financial restraint. We have held back on spending. We are a small agency, with funds tightly allocated and our request includes no contingency funds for staff or unanticipated problems or studies.

Our current staff will spend as much time as possible analyzing current pay and compensation issues, including proposed changes in the civilian retirement policy and the impact of placing everyone under a merit system.

This concludes my remarks and I will be happy to answer any questions. Thank you.

APPENDIX

AUTHORITY FOR THE COMMITTEE

The Federal Pay Comparability Act of 1970 established the Advisory Committee on Federal Pay. The Committee was given responsibility to: (1) review the annual report of the President's agent; (2) consider such further views and recommendations with respect to the analysis and pay proposals contained in the annual report of the President's agent as may be presented to it in writing by employee organizations, the President's agent, or other officials of the Government of the United States, and such experts as it may consult; and (3) report its findings and recommendations to the President.

Recommendations of the President's Panel on Federal Compensation in December 1975 and an Executive Order signed on July 20, 1977, expanded the committee's original responsibilities. These changes charged the committee to act as a third party to improve the pay decision process between the President's pay agent and organizations representing Federal employees and with making longer term policy recommendations regarding Federal pay policy, to consider the impact of Federal pay on the national economy, and to advise on changes that should be proposed in Federal compensation policies and practices.

BUDGET REQUEST

Mrs. TANNER. The Advisory Committee on Federal Pay was established by the Federal Pay Comparability Act of 1970, and it was given the responsibility to advise the President on pay and compensation matters. We also mediate between the pay agent and the representatives of Federal employees on pay matters.

We come before you to request a budget of $215,000 for fiscal year 1984. This will be used to pay the staff of three full-time Government employees, and also office expenses, and to pay the committee members when they are on committee business.

We will spend our time on important compensation and pay issues that are confronting us these days. I have a copy of the committee's 1982 report, and I would like to make that part of my record as well.

Senator ABDNOR. Without objection, it will be made part of the record.

[The information follows:]

ANNUAL REPORT OF THE ADVISORY COMMITTEE ON FEDERAL PAY—SEPTEMBER 2, 1982

REPORT ON THE FISCAL 1983 PAY INCREASE UNDER THE FEDERAL STATUTORY PAY SYSTEMS

September 2, 1982

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

The Advisory Committee on Federal Pay has the honor of submitting to you its eleventh annual report. The report incorporates our findings and recommendations with respect to the Fiscal 1983 pay adjustment for approximately 1.4 million Federal civilian employees.

The Committee hopes that our recommendations will prove useful to you in arriving at your decision.

Respectfully submitted,

Eva Robins

Eva Robins
Member

Frank G. Zarb
Member

Jerome M Rosow

Jerome M. Rosow
Chairman

I. INTRODUCTION

The Federal Pay Comparability Act of 1970 requires the Advisory Committee to report annually to the President on the extent and nature of a comparability pay raise for Federal workers paid under the General Schedule. This responsibility is not abrogated by the Congressional budget resolution, which sets a 4-percent ceiling on the 1982 (FY 1983) pay increase, or by the Presidential decision to adopt an alternative pay plan. Accordingly, the first part of this report discusses comparability with the private sector.

Events have, however, reduced the current discussion of full comparability to an academic exercise. The Congressional budget resolution provides for a 4-percent increase and the Administration's early Fiscal 1983 budget proposal assumed that this year's General Schedule increase would be 5 percent.

What remains unclear is the long-term future of Federal pay policy. An effective pay fixing system determines the Federal Government's ability to attract, retain, and motivate employees who can provide the quality of government management and administration that the country needs. Therefore, this report must discuss this longer term basic issue. The decision to focus on the basic issue is based both on Executive Order 12004 (July 20, 1977), which charges the Committee to make compensation policy recommendations, and the Committee's stated role under the Federal Pay Comparability Act of 1970.

II. THIS YEAR'S COMPARABILITY INCREASE

If it were possible to put into effect full comparability as provided by the Federal Pay Comparability Act of 1970, the Advisory Committee would recommend the increases shown in table 1. These range from 15 percent for Grade 8 to 31 percent for Grade 15, and average 17 to 18.5 percent--17 percent because of the limit created by the statutory ceiling on General Scheule pay and 18.5 percent if that ceiling were removed.

These increases would provide pay levels comparable to the private sector, as determined in the Bureau of Labor Statistics' survey in the Spring of this year. 1/

Even to this Committee, which has been aware of the erosion of Federal pay below comparability year by year, the size of the increases required to restore comparability comes as a shock. The data show the progressive deterioration of pay resulting from five successive "alternative pay plans." The cumulative effect has been to open a pay gap which becomes more and more difficult and costly to close. It reflects the deterioration of Federal pay standards below the private sector as a result of repeated budget constraints whereby fiscal policy has overridden pay policy. Effective and proper pay policy has become captive to the budget.

It is clear that comparability will not be restored this year but the Committee urges the President to announce, in the Fiscal 1984 budget message, the definite steps he will support to return to comparability over a limited number of years.

The Committee must question the statement in the Pay Agent's report to the President to the effect that the "implementation [of pay comparability] in the existing law is seriously flawed." Over the years in which comparability has been measured and we have participated in the review of pay policy, improvements have been made in the measurement process. There is certainly room for further improvement, but independent Presidential study groups, the General Accounting Office and Congressional Committees, have not discovered serious flaws in the measurement system. The implicit questions that the Pay Agent has should be made explicit and discussed with the Federal Employees Pay Council as soon as possible.

III. EMPLOYEE ATTITUDES

Representatives of Federal employee unions and professional organization appeared before the Committee on August 23. They voiced deep concern about the ability of the government to protect the national health, welfare, and defense. The current state of affairs with regard to Federal pay and benefits was identified as counterproductive to the Nation's needs.

The presentations were marked by the absence of militancy or threats of employee counter measures. Rather, the meetings were characterized by a deep sense of hopelessness and powerlessness. All the groups stated that current pay setting practices were unfair and that the steady assault of alternative plans was making a mockery of the Federal Pay Comparability Act. They noted a number of problems, including the following:

1. The pay gap has become so wide as to undermine employee belief in the purpose and fairness of the system.

2. The changes considered by the government over the past decade have been one-sided and have focused on reduction in pay or benefits,

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1/ The magnitude of the increases reflect the combined effect of pay level changes of about 9 to 10 percent in the private sector between early 1981 and early 1982 and the fact that Federal pay scales now in effect were already, on average, almost 10 percent behind the 1981 private sector scales.

with little participation on the part of employees and no quid pro quo.

3. The current attack on the retirement system and the recent decision by this Congress to reduce the benefits for annuitants under age 62 are undermining confidence in the long-term security of Federal pensions for all employees, civilian and military.

4. Recent action to impose the 1.3 percent Medicare tax on Federal employees will have the effect of reducing the 1982 4-percent across-the-board pay adjustment to an effective 2.7 percent. When this 2.7 percent adjustment is reduced by Federal and State taxes and the 7-percent pension contribution, the net gain in take-home pay will be minuscule.

5. Both for the civilian and military work force, there have been adverse effects on recruitment and retention of high quality personnel. All of these are eroding the real effectiveness of government.

6. Data collected from their membership show high turnover of skilled personnel. Once trained at government expense, many are able to transfer their skills profitably to the private sector. The private sector regards high turnover of highly trained workers as a serious symptom of the organization's inability to compete for and retain qualified talent. For the government deliberately to maintain low pay levels is false economy, costing more in the long run.

7. Finally, several of the largest Federal employee unions recommended the creation of an independent salary board to assure fair and equitable salaries.

IV. LONG-TERM POLICY ISSUES

The Past--What Has Happened to Comparability and What Have We Learned?

There has been almost constant retreat from pay comparability. Since 1970, when the Federal Pay Comparability Act was established, departures from the principle have become more and more frequent. Of the 12 salary increases between January 1971 and October 1981, only 4 fully followed the principle established under the Federal Pay Comparability Act of 1970 to provide Federal pay rates "comparable with private enterprise pay rates for the same levels of work."

This will be the fifth consecutive year in which Federal salary increases have been lower than required to maintain comparability with the private sector, and the lag of Federal pay behind the private sector has become great. This mounting gap is summarized in table 2.

The Act authorizes the President, subject to being overridden by either House of Congress, to put into effect alternatives to pay comparability in any year in which he judges that an "emergency" warrants such action. Successive Presidents have judged that fiscal pressures constituted such an emergency in 8 of the 13 years in which the comparability legislation has been in effect. 2/

The size of the comparability gaps that have been created by the succession of alternative plans, the frequent and repeated use of such plans, and the dismal outlook for continued budgetary deficits all raise serious questions as to the future of basic Federal pay policy.

2/ In two other years, the President invoked Economic Stabilization Act legislation in an attempt to reduce increases below comparability--successfully in one year and unsuccessfully in the second. Two alternative plans were overriden by Congressional action. The 8 out of 13 years count includes this year's decision.

The record of departures from the pay system has led the Committee--increasingly over the years--to search for a viable substitute. Is there another system that would be allowed to function and that would, at the same time, be both fair and equitable to the public and to Federal employees while serving the needs of effective government?

The Committee itself has not discovered any pay fixing system that is clearly superior or preferable to the present Comparability Act. The Committee is convinced that observing the comparability principle prevents overpayment of employees and, at the same time, permits the government to compete for top quality personnel.

Comparisons made by the Committee between the white-collar comparability system and a number of alternative methods of adjusting pay are summarized in table 3. This indicates that substitution of any one of these other methods would add billions of dollars annually to the Federal white-collar payroll. This conclusion is reinforced by an independent study released by the General Accounting Office in July of this year. Evidence forces us to conclude, therefore, that whereas the white-collar system is not perfect, it produces the lowest cost compared with all the alternatives with which there is experience.

At present, the government is not applying the statutory system. Rather, it has substituted arbitrary pay scales, which are based neither on pay trends nor prevailing pay levels. Such substitutions also lack any participation by employee representatives and have no support from the work force.

Short-term claims of fiscal necessity have dictated recent pay decisions rather than long-term considerations of competitive pay and sound personnel practice. Short-run savings could become long-term losses in government efficiency. These losses could include executive and professional turnover, lowered morale, and the loss of Federal leadership in setting a national example of sound and effective personnel practices. Further, the arbitrary scales have damaged credibility with employees and the public at large. This runs the risk of a loss of income, prestige, and feeling of self-worth on the part of Federal employees which, in turn, diminishes their productivity, ability, and desire to serve the public interest.

Departures from comparability have encouraged retirement of highly competent managers, reduced Federal employee morale, and discouraged outstanding people from entering Federal Service. The need to adopt above scale "special rates" for clerical occupations in a number of communities during the past year, described later, is an early warning of the extent of the Federal Government's inability to compete in local labor markets.

The suspension of the link between white-collar pay and military pay recognized the fact that the military could no longer compete for an all volunteer army if it were required to observe the pay restrictions placed on white-collar employees. In 1980, the military received an 11.7 percent increase, compared with 9.1 percent for white-collar workers. In 1981, increases were 14.3 and 4.8 percent, respectively. Disruption of linkages is another clear danger signal that the system is not working.

The Present

This year, Federal employee compensation problems have been greatly exacerbated by economic problems--problems that are truly critical. The economy is in severe recession. High unemployment--at double digit levels in parts of the country where troubled industries are concentrated--has led to reopening of labor contracts to reduce costs. The Government is projecting its largest deficits in history. The enormous pressures to reduce government expenses have created a climate adverse to sound pay policy.

Federal pay increases have lagged behind comparability in each of the past 5 years. Thus, pay concessions have been imposed on Federal employees without negotiations and absent any quid pro quo typical of the unionized private sector. This is one negative way in which Federal employees have anticipated the private sector economy. Their pay was depressed long before pressures developed to hold down some private sector pay increases. Therefore, the rationale that the private sector is tightening up on compensation does not justify further Federal pay restraint since it would impose unjustified double penalties.

Shortages of clerical workers in a number of communities (even in this period of high unemployment and government layoffs) illustrate the current lag of Federal pay. Special rates have been in existence for a number of years for some professional jobs in which Federal pay scales have lagged. However, in the past, Federal pay has been relatively more generous for clerical work than for professional and managerial jobs. Now shortages of clerical workers have become so acute in a number of areas that it has been necessary to authorize payment of salaries above the General Schedule for these workers. It is specious to contend that lagging Federal pay has not had an unfavorable effect on the recruitment of highly qualified personnel.

Reductions in Federal employment and temporary furloughs have also been added to previous pay concessions. Not only have reductions in force weakened a critical benefit of government service--notably long-term employment security--but furloughs have resulted in reductions in annual income for a number of Federal employees who have retained their jobs. Aside from the employment and income losses, the painful uncertainty resulting from frequent changes in reductions-in-force and furlough plans is having adverse effects on employee productivity. The problem is compounded by the fact that no floor has been placed under employment; as the budget deficits exceed a hundred billion dollars, there is bound to be increasing gloom as to future job security. Efficiency is not attainable in a climate of fear and uncertainty. Many Federal employees are "locked in" to their careers, having made long-term commitments. They can only wait it out and hope for a better future.

The Future--Costs of Ignoring Pay Comparability

If Federal pay continues to deteriorate, the quality of the work force and the efficiency with which Federal Government functions are performed will also continue to deteriorate. This means an increase in the net cost of government. The private sector has always responded to labor market competition in fixing pay. If the Federal Government ignores this economic reality, it must become increasingly less efficient.

If comparability continues to be ignored, there will be growing dependence upon special rates. While we would like to see the entire General Schedule divided into more homogeneous groupings than the present all--encompassing General Schedule, establishment of a special schedule for large numbers of critical occupations would be chaos. The present arrangement for setting special rates in occupations in which recruiting reaches crisis proportions is a disorderly way of setting pay scales. It is only an emergency action taken after the government has lost substantial numbers of qualified employees. Special rates are an early danger signal of the breakdown of the pay system in a labor market. Increasing use of such rates will create serious internal inequities with employees in other jobs. This would add the heavy burden of internal labor market disorder to the existing external labor market pay gap.

V. SUMMARY--THE PAY LAG AND THE CATCH-UP

The lag of Federal white-collar pay behind the private sector has been growing alarmingly. It averaged 3 percent or less only 3 years ago (table 2). After this year's 4-percent increase, it will average almost 14 percent and exceed 25 percent at upper, management levels. A plan reducing these gaps should be developed and adopted. Otherwise, they will not only interfere with effective personnel management and efficiency but will almost certainly continue to grow out of control.

It is unrealistic to expect that, given fiscal problems, the gaps can be bridged in one step. Instead, a plan should be developed and announced now that would eliminate them in a series of three to five annual catch-up adjustments. This lag could be cut by approximately a third in Fiscal 1984 and by additional thirds in Fiscal 1985 and 1986, or by a fifth in each year from 1984 to 1988. Assuming a 5-year plan, Federal pay increases would match current private sector adjustments plus a catch-up averaging 2.6 percent a year. A 3-year catch-up would require that 4.4 percentage points be added each year to the adjustments needed to match those taking place during the current year in the private sector. The Committee believes that the 3-year timetable would provide a more cost effective response than the longer phasing in of the pay increase in view of the positive effects it would have on morale and competitiveness and, hence, on government productivity.

Presidential announcement of a catch-up plan would revitalize the comparability system. Implementation of the first catch-up step in Fiscal 1984 would be a great boost to Federal employee morale and productivity. It would heal in part the festering wound that has developed in labor-management relations and would improve employee attitudes so as to stabilize working relationships throughout the Federal Service. Return to comparability would also reinstate a system that has proved itself to be fair and yet much less expensive than other methods now in effect for paying other groups of Federal employees. It represents the type of Presidential leadership needed to guarantee the future of a tighter, better government.

VI. RECOMMENDATIONS FOR THE FUTURE

The Fiscal 1983 white-collar pay increase has been settled by the recent Congressional budget action, approved by the President, to limit that increase to 4 percent. This decision makes the Committee's recommendations for comparability this year, presented earlier in this report, academic. Therefore, our urgent recommendations look to the future.

The outlook for Federal pay policy and the closely related goals of improvements in government productivity and efficiency remains dim unless positive and courageous steps are taken both by the Administration and the Congress.

1. The President should, in his Fiscal 1984 budget message, establish a timetable and announce a plan for returning to pay comparability. The catch-up pay adjustments should begin in Fiscal 1984 and should be accomplished within 3 to 5 years.

2. Only after comparability pay has been restored should reforms apply to employee benefits. The benefits package should not be mixed up with a troubled pay system. There should be safeguards to prevent unilateral reductions in pension or other benefits that will simply further aggravate depressed pay. Pensions are part of the total compensation package. There is danger that employees will be doubly penalized, causing further erosion of government efficiency.

3. As the Advisory Committee recommended in its 1981 report, a new statute should be enacted to end the stalemate in executive, legislative, and judicial pay. Separate pay plans for each of the "separate but equal" branches of government are needed without delay. We recommend, therefore, the creation of a new statutory body of persons of national repute to make annual reviews of each pay system, taking into account differences in the terms and conditions of employment and the respective roles of legislators, Federal judges, and appointed officials. The commission would propose annual compensation changes, presumably differing for each of the three branches of government but taking into account the changes proposed for the other branches.

4. The cost effective performance of the comparability pay system should be noted by the President and the Pay Agent. As table 3 shows, full comparability during 1970-81 would have cost less than any of the alternative pay-fixing methods with which comparisons are drawn. Even if comparability had been fully implemented, the Federal white-collar payroll would be from $1.8 billion to $11.3 billion a year lower than it would be had one of the other pay adjustment methods been followed.

Respectfully submitted,

Eva Robins

Eva Robins
Member

Frank C. Zarb
Member

Jerome M Rosow

Jerome M. Rosow
Chairman

Table 1. Increases in General Schedule Pay Needed in October 1982 1/ for Comparability With March 1982 Private Enterprise Rates

GS Grade	Comparability gap-- Percent of private sector pay	Comparability gap-- Dollars	Step 1 pay levels to provide comparability
1	22.01	$ 1,926	$ 9,794
2	20.16	2,003	10,911
3	18.61	2,092	12,140
4	17.34	2,200	13,482
5	16.35	2,331	14,956
6	15.63	2,498	16,567
7	15.17	2,708	18,338
8	14.98	2,977	20,275
9	15.05	3,319	22,407
10	15.37	3,751	24,747
11	15.97	4,295	27,328
12	17.96	5,815	33,316
13	21.07	8,109	40,664
14	2/ 25.41	2/ 11,465	49,772
15 2/	31.07	16,234	61,192
Average	3/ 17.05		

1/ Before 4-percent increase.

2/ Assumes that the statutory ceiling is raised. If the ceiling is not raised, the actual increases will be smaller.

3/ 18.5 percent if the statutory ceiling were raised.

Table 2. Percent Increase of General Schedule Salary Scales Needed for Comparability with Private Sector, 1/ Selected Grades and Dates

Date	GS-1	GS-5	GS-11	GS-15	Average, all grades
January--					
1971 -------	0	0	0	0	0
1972 -------	1.1	1.1	1.1	1.1	1.1
October--					
1972 -------	1.63 above	.81 above	.48	2.29	0
1973 -------	0	0	0	0	0
1974 -------	0	0	0	0	0
1975 -------	3.10	3.40	3.86	4.50	3.4
1976 -------	0	0	0	0	0
1977 -------	.03	.71 above	.38 above	2.80	0
1978 -------	.62	.86	2.53	7.37	2.7
1979 -------	0	1.73	2.52	7.9	3.1
1980 -------	0	2.1	2.9	10.8	3.3
1981 -------	7.56	6.95	8.98	17.68	9.8
1982 2/ ----	12.9	11.88	11.51	26.03	13.9

1/ Based on Step 1 rates; comparability as computed by Pay Agent on the basis of BLS data for the private sector as of April of each year in which Federal pay increase was effective in October (as of preceding June in case of Federal increases effective in January). Gaps apply only to the year in which they are shown and are not cumulative.

2/After a 4-percent across-the-board increase in October 1982.

SOURCE: Advisory Committee on Federal Pay's report, "A Decade of Federal White-Collar Pay Comparability, 1970-80," updated.

Table 3. Federal Pay, Private Sector White-Collar Pay, and Consumer Price Index Changes, 1970-81

Measure	Percent increase 1970-81 1/	Estimated addition to Fiscal 1981 Federal white-collar compensation costs if white-collar pay had increased at the same rate as other measures-- Compared with actual white-collar increase--comparability or alternative plans	Compared with full comparability
		(Billions of dollars)	
Federal white-collar salary scales:			
Actual increase 2/	98		
With full comparability	118	3.5	
Military scales	121	4.0	.5
Private sector white-collar pay as measured by BLS 3/	129	5.3	1.8
Consumer Price Index	147	8.5	5.0
Postal pay scales 4/	183	14.8	11.3
Federal blue-collar pay scales 5/:			
Actual increase 2/	145	8.2	4.7
Without alternative plan limits	159	10.6	7.1

1/ January 1970 to October 1981, except where otherwise noted.

2/ Comparability or alternative plan increases.

3/ June 1969-April 1981.

4/ Excludes increase decided in April 1970 but retroactive to December 1969. Based on Level 5, Step 4. Excludes $150 bonus for contract signing in 1981; includes November 1981 CPI adjustment.

5/ Assumes January to June 1970 increase of 3.5 percent--half the July 1, 1969 to June 30, 1970 increase.

APPENDIX A

ORGANIZATIONS DISCUSSING THE PRESIDENT'S AGENT'S REPORT WITH THE ADVISORY COMMITTEE ON FEDERAL PAY

Federal Employees Pay Council

American Federation of Government Employees--
George Hobt

National Federation of Federal Employees--
David Gusky

Other Employee Organizations

Federal Bar Association--
William R. Robie

Federal Executive and Professional Association and the Naval Civilian Administrators Association--
Edwin D. Becker
Stephen King
J. Hartley Bowen, Jr.

National Federation of Professional Organizations--
James D. Hill

The Non-Commissioned Officers Association of the United States and The Retired Officers Association--
C. A. McKinney
Commander John Wanamaker

Organization of Professional Employees of the U.S. Department of Agriculture--
Charles McDougall

STAFF AT ACFP

Mrs. TANNER. Thank you very much.

This concludes my brief comments, but I would welcome any questions you might have.

Senator ABDNOR. Well, I wouldn't mind asking a question. You reach some kind of proposal for the President. How is that done? Do you have a resourceful staff, or what?

Mrs. TANNER. We have a very small staff, myself and the staff assistant, and a salary for a secretary, and consultants. I can go through the process with you very briefly.

Senator ABDNOR. Yes.

Mrs. TANNER. Under the current system of setting Federal pay, the Bureau of Labor Statistics collects data from the private sector, collects data for 101 jobs found in both the Federal Government and the private sector. Their sample covers 44,000 establishments and 23 million workers—and from this sample they collect wage data. They visit establishments, and they prepare a report.

Their report is turned over to the Office of Personnel Management, who serves as one of the members of the pay agent. The data is looked at in terms of Federal workers to compare salaries and grade levels, and the pay agent issues its report.

Last year, the pay agent reported that Federal salaries should be increased 18.5 percent. This represented that year's pay increase in the private sector, plus the additional increases that were not granted over the previous 4 years. That is how the 18.5 percent was arrived at.

The pay agent prepares its report to the President, we review the pay agent's report, and come to our own conclusions based on the data, and we make our own recommendations to the President.

In our last year's report, we recommended that the 18.5 percent be implemented. We were aware at the time that the report was prepared that portions of that might not be granted. We recommended the additional amount that was not going to be implemented, 13.9 percent, be implemented over a period of from 3 to 5 years.

Senator ABDNOR. How long was that?

Mrs. TANNER. Over a period of 3 to 5 years, to stagger the amount that would be due over a period of years. We also recommended that the benefits not be reviewed or changed until full comparability of pay is restored. I think these were our two major recommendations.

Senator ABDNOR. You don't make recommendations on the blue-collar wage scales, do you?

Mrs. TANNER. No; we don't. That is a separate group. The blue-collar workers have also had their pay capped along with the white-collar workers, but we are primarily concerned with the white-collar workers who number about 1.4 million.

Senator ABDNOR. There is a lot of discussion going on, about capping wages and retirements, and there is a lot of attention given to the rate of increase in the current Federal employees and those retired Federal employees. What would you say that has been over the last 10 years? Has there been quite a discrepancy there in the Federal employees increase and the people on retirement?

Mrs. TANNER. Well, the retirees' increases are governed by the Consumer Price Index changes, and the white-collar workers' pay has been capped. As a matter of fact, we have a table in our report that shows this very clearly. You don't have it before you, but I will make it available for the record.

Senator ABDNOR. We will make that part of the record, without any objection. I think it should be in there.

[See table 3 of the "Report on the Federal 1983 Pay Increase Under the Federal Statutory Pay Systems," dated September 2, 1982, which has been submitted for the record.]

INCREASE OF WAGES

Mrs. TANNER. The table shows that the white-collar workers' wages increased 98 percent from 1970 to 1981, while Federal pensions, tied to the Consumer Price Index, increased by 147 percent. Wages have not kept up with the Consumer Price Index, although they are not measured against that. They are measured against the private sector wages.

Senator ABDNOR. Do you see that becoming a problem? Do you think it is something that we in Congress can ignore?

Mrs. TANNER. Well, I think speaking for the committee we are very concerned about the increases not meeting the full comparability, and I think that I would like to read a very brief paragraph which was also worked on with the committee chairman, Mr. Rosow, if I may read it for you, please.

Senator ABDNOR. Yes.

Mrs. TANNER. "A proposal has been made to grant no October 1983, pay increase for civilians and the military. Based on our readings on the sentiments expressed, there is some support for military increase and very little support for civilians. Last year's increase fell far short of comparability. In fact, the 4-percent increase was almost offset, since employees began paying 1.3 percent of their gross wages into the medicare system, and were faced with health insurance premium hikes averaging 24 percent. They now face a year of no increase. Fairness and equity dictate a return to the comparability system. Similarly, if increases are going into the military, increases should be given the civilians. It should be remembered that in October 1980, the military received 11.7 percent and the next year 14.3 percent, while civilians received 9.1 and 4.8 percent respectively. The linkage between civilian and military pay has been severed. In addition to the pay freeze, employees are also threatened with substantial changes of benefits and within-grade increases which represent cutbacks as well."

Senator ABDNOR. We will put that in the record.

Mrs. TANNER. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator ABDNOR. I know there may be other questions from other Members. If there are, we will submit any additional question for the record.

We appreciate very much your being here today, and we look forward to having you back again.

Mrs. TANNER. Thank you very much.

Senator ABDNOR. I am going to have a short recess while I get some information. I have just been told that an amendment I sponsored for 2 days on the floor is now up. We had some agreement on that. I hope it will be very short.

Let me call and see what the situation is. I would hate not to be there after being the cause of all the trouble. I had better ask the participants here what they want to do. I have to go to the floor. I think I will be out at 3:15. You have the option of staying, or coming back another day. I know you are all busy. I hate like sin to make you come back when you are that busy. I would rather complete it rather than ask you to come back another day.

So, if you don't mind, I leave you in good hands of Chuck Parkinson to ask you a couple of questions.

[A brief recess was taken.]

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

1. We all know that in-grade pay raises are handed out to federal civil service employees each year on an almost automatic basis. I understand each in-grade pay raise averages about 3%. So if you recommend an 8% raise to achieve comparability with the private sector, we're really talking about an 11% raise. Is this other raise taken into consideration when you make your annual pay raise recommendation to the President?

Answer:

In response to your question, I would like to briefly describe these increases, then discuss how they are accounted for in the comparability measurement, and, finally, provide the Committee's view on this subject.

During the first 3 years of employment, progression to the next step occurs every year, provided work performed is satisfactory. The next step increase is granted every other year for the next 6 years, and, finally, every 3 years until the top of the grade is reached at the end of 18 years of service. When the top grade is reached, no further step increases are granted. Roughly 40 percent of Federal employees receive a step increase in any given year.

The concept of step increases for Federal workers has existed since 1941 and the current system has been in effect since 1962. Step increases are computed in the measurement of comparability because average wage rates include step increases. In terms of costs, the 3-percent steps are not incremental costs because of turnover and no participation by employees who have reached the top of the scale. Therefore, an 8-percent increase costs 8 percent, not 11 percent.

The step increases are derived by fixing step rates below prevailing private sector salaries, and rates above. Considering the fact that the "average" blends all steps together, there is virtually no added cost to payroll. Thus, if the data indicate that an 8-percent comparability increase is required, step increases have already been made an integral part of that calculation.

The Committee is concerned over the plan to change the current method to a performance system. In an organization with over a million employees, fixed-time based service related adjustments have proved to offer the greatest equity, fairness, ease of administration, and noncontroversial method. In terms of employees, the step increase represents a reward for increased service, experience, and training on the job within specified waiting periods, which increase in time with increased seniority. Performance standards are important but the present law requires "an acceptable level of competence," which implies average or better performance in order to quality for each time in grade step adjustment.

As the last few years have shown, placing GS-13-15 managers under a performance "merit system" has not been successful and has created controversy rather than better performance. And, while merit in principle is desirable, its application has been less than ideal. In today's climate of multisided attacks on both pay and pensions, it is untimely and unfortunate to introduce another break in past practice. This change will produce work and controversy greater than any benefits to productivity or organizational performance. Timing is bad, the results highly uncertain, and the moral consequences have already been negative.

The ideal of achieving performance pay that is awarding every merit step entirely according to performance of each individual is an ideal. Every organization professes this goal and few attain it.

As a generalization, the larger the organization the more difficult it becomes. This is caused by the multiplicity and variety of supervisors, interorganization differences in performance standards, laxity of administration and fiscal restraint. Whereas the Advisory Committee applauds the goal of performance pay, we are skeptical of the real outcome.

2. Your comparability survey indicates that federal workers are underpaid by 18% when compared with their counterparts in private industry. In most parts of the country it is rare for anyone to make $50,000 a year. Yet this

is commonplace today in the federal workforce. For example, secretaries in South Dakota make less than $10,000 on the average. Civil Service secretaries start at that level or higher. I recognize that civil servants in the same grade and step receive the same pay all over the country. But when you are doing your survey, do you take into account the tremendous regional differences in private sector pay?

Answer:

A recent article in the Washington Post referred to the 60,000 Federal workers earning $50,000 or more a year. This unfortunate use of these statistics exaggerates the executive pay picture for the Federal Government. The government employs 2.8 million white-collar and Postal employees and 2.1 million military personnel. These 60,000 employees thus represent 1.2 percent of the total employment, a percentage that is probably equal to or less than the proportion that would be found in most major corporations. It should also be pointed out that the Federal Government employs considerably more professional and technical workers than are employed in the general economy. This fact also raises pay levels.

Just a word about income over $50,000 being rare. According to the Bureau of the Census data, wage or salary income for 1.6 million persons 15 years or over amounted to $50,000 or more as of March 1981. The 60,000 Federal workers represent only about 4 percent of the total number earning that sum in the Nation.

A few observations about secretaries and how the pay survey is conducted. Job descriptions and responsibilities are prepared for two levels of typists, who fall into grades 2 and 3, and for five levels of secretaries, classified in grades 4 through 8. Two levels of stenographers are in grades 3 and 4. In some private sector situations, all of these jobs may be called "secretary" but unless the job is clearly defined it could not be determined at what level a person is performing. (Close to three-quarters of employees in the three categories earn $13,369 or less.) A Federal Government typist I currently earns $9,756 compared with a secretary at the Grade 8 level, who earns $18,339.

When the Bureau of Labor Statistics conducts its annual survey of the private sector, it's sample includes establishments in 48 States and the District of Columbia, excluding Alaska and Hawaii. Within the survey scope are 44,000 establishments employing 23 million workers located in metropolitan and nonmetropolitan areas. The industries surveyed include mining; construction; manufacturing; transportation; communications; electric, gas and sanitary services (except the U.S. Postal Service and governmental agencies, such as the Tennessee Valley Authority); wholesale trade; retail trade; finance, insurance and real estate; and selected services. From this sample, 3,480 establishments, employing 100, 250, or 50 workers, or a total of 6.2 million employees are studied. With such an extensive survey, the largest in the world, the results show wide pay variations for the same job, due partly to geographic differences, urban versus nonurban, by industries and other factors. For the same level of secretary I, for example, private sector monthly salaries range from $750 or less to a high of $1,850. The results are weighted by the number of employees and their salaries, thus taking into account the great variations.

Because of the uniform salary structure for white-collar workers, some may be overpaid in an area while others are underpaid. Obviously, a $12,000 salary in Biloxi, Mississippi, is not the same as that in San Francisco, New York City, or Washington, D.C. In order to assist recruitment in high wage areas, OPM has classified about 35,000 jobs as special rate situation (higher rates). Because of not adhering to comparability over the past 5 years, even clerical workers in Houston, Texas; Los Angeles, California; and Chicago, Illinois, have been placed under special rate provisions because of the government's difficulty in recruiting and retaining qualified workers.

The Advisory Committee has supported the principle of locality pay rates for white-collar jobs (GS-1-7), as has the Rockefeller Panel. But no reliable estimates exist about the potential overall cost effects.

3. Mr. Devine of OPM cites a U.S. Chamber of Commerce study indicating that federal pay today is 35% above the private sector average. Both OPM and the Chamber say your survey is improperly weighted to favor the federal employees. If so, perhaps it is geared too much to Washington pay levels in the private sector, which are higher than those of most areas of the country. How would your respond?

Answer:

It is unfortunate that the U.S. Chamber of Commerce study, which purports to show that Federal pay is 35 percent above the private sector average, is granted any credibility. Obviously, lumping all workers in the economy, minimum wage, blue-collar, with all levels of skills, education and qualifications, as this study does, with the work force of the Federal Government, which includes more professional, technical, and highly skilled workers, is not an accurate comparison.

It should be emphasized that Washington, D.C., is only one of the areas of the country for which BLS data is collected. Should it, along with Boston, Massachusetts, and other high cost areas be eliminated and only low cost areas be surveyed? Of course not. Washington, D.C. is the headquarters of government and, as such, has a high proportion of executives and managers. This is also true for all cities of major corporation headquarters, e.g., Chicago, Houston, San Francisco, and New York. When BLS presents the private sector data to OPM for comparison with the Federal work force, however, it is jobs and grades that are weighted by number of employees, not areas of the country.

We have read OPM's charges that the survey is "flawed" and that it benefits the Federal worker. We ask where and how is it faulty? The survey has been ongoing for 20 years, since the time the government first determined that pay should be comparable with the private sector back in 1962. BLS and OPM have jointly worked on the jobs to be surveyed, the industries to be visited, and the establishment size. In all these years, the credibility of the survey has never been challenged.

The current attacks on the PATC survey reflect on the reputation of the Bureau of Labor Statistics as the government's data gatherer of the nation's prices as well as wages. BLS's integrity as a nonpolitical and objective surveyer has long been held in high regard. A report by the Comptroller General of the BLS conduct of the pay survey found no bias in reporting or collecting survey results but merely recommended that additional guidance and training for its data collectors was needed. The report, dated May 11, 1973, entitled, "Improvements Needed in the Survey of Non-Federal Salaries Used as Basis for Adjusting Federal White-Collar Salaries," offered suggestions for its design and recommended broadening the occupations surveyed and including additional industries—e.g., smaller sized establishments and State and local governments. Considerable expansion of the survey has been undertaken since that time. Jobs and industries have been added and establishment size lowered.

The Rockefeller Panel (1975) also proposed survey improvements but found that the comparability principle as implemented was the most effective pay setting mechanism. The Advisory Committee, too, has recommended appropriate improvements in the survey. However, it appears that what is now being advocated is a radical departure of methodology, inconsistent with the intent of the 1970 Pay Act.

The contention that Federal pay is 35 percent above the private sector pay average is invalid and unsupported by fact. Yet, these types of poorly conceived "studies" attract popular attention and muddy the waters. The net effect is adverse to good, effective government.

4. A study just released by OPM found that nearly 14.3% (188,000) of the government's 1,312,000 full-time, white-collar positions are overgraded while only 1.5% (20,000) are undergraded. Here again I find this situation out of keeping with your finding that federal employees are underpaid by 18%. How would you respond?

Answer:

OPM's finding that 14.3 percent of the government's full-time white-collar positions are overgraded is not inconsistent with the finding that Federal workers' pay is approximately 18 to 20 percent behind the private sector. Positions are misclassified when the official titles, occupational series or grades do not totally match what employees actually do or their real level of responsibility. When the BLS survey is conducted, the standard position descriptions are used and measured against wages for the equivalent job description in the private sector. This same question can also be raised for the private sector as well. Do all employees in the private sector actually perform duties and hold responsibilities that are in their job descriptions, or are some also overgraded?

OPM looked at the reason for Federal overgrading and found that 59 percent had inaccurate position descriptions, generally a simple classifier error, or the job had not been reviewed after the position had changed. Overclassification is a reflection of administration of the job classification system, not the pay system. Laxity in standards, internal organizational influence, duplication of effort, overlapping responsibility, and outdated job sheets all contribute in some measure to misclassification. Many times it is a deliberate response to low pay levels--grades are forced up to overcome inadequate salaries.

This problem is universal to all job classification systems and requires constant administrative review, sound budget procedures, and adequate control over supervisors and staffing.

COMMITTEE FOR PURCHASE FROM THE BLIND AND OTHER SEVERELY HANDICAPPED

STATEMENT OF CLYDE C. COOK, CHAIRMAN

ACCOMPANIED BY CHARLES W. FLETCHER, EXECUTIVE DIRECTOR

PREPARED STATEMENT

Mr. Parkinson [presiding]. Next, we will hear from the Committee for Purchase from the Blind and Other Severely Handicapped, Mr. Cook, the Chairman, and Mr. Fletcher, the Executive Director. Welcome, gentlemen. As Senator Abdnor stated earlier, we will place your whole statement in the record, and you may proceed as you like.

[The statement follows:]

Statement of Clyde C. Cook

Mr. Chairman, it is a pleasure to appear here today to present the appropriations request of the Committee for Purchase from the Blind and Other Severely Handicapped for fiscal year 1984.

The committee was created by the Javits-Wagner-O'Day Act (Public Law 92-28) in 1971. The committee is the successor to the Committee on Purchases of Blind-Made Products established by the Wagner-O'Day Act of 1938. Its purpose is to increase employment opportunities for blind and other severely handicapped, and whenever possible, to prepare these individuals to engage in normal competitive employment. The committee's primary means for achieving its objective is to direct the Government's procurement of selected commodities and services to qualified workshops serving the blind and other severely handicapped.

The 15 members on the committee are appointed by the President. Eleven members represent various Government agencies and four are private citizens who are conversant with the problems of employing blind and other severely handicapped persons.

Under the act, the committee has the responsibility for determining which products and services the Federal Government buys are suitable for provision by qualified workshops serving the blind and other severely handicapped. The committee establishes the prices which the Government must pay for those commodities and services.

The committee has a full-time staff of 12 persons to assist in the implementation of the program. The staff is responsible for developing recommendations and proposals for the consideration of the committee. Operationally, it supervises the selection and assignment of new commodities and services; assists in establishing the fair market price and reviewing price changes; verifies the qualifications and monitors the performance of workshops; and serves as a vital link between the workshops and the Federal Government in expanding the program and resolving production problems. In addition, the staff handles all of the administrative functions for the committee such as developing policies and procedures, initiating and responding to correspondence, preparing the committee's budget, and performing all the functions required of an independent Government agency.

During the past year, the committee has continued its progress in expanding the benefits of the Javits-Wagner-O'Day Act to increasing numbers of blind and other severely handicapped individuals.

Workshop sales to the Federal Government under the committee's program during fiscal year 1982 were $162 million. In addition, sales through the military resale program were $13 million for a total of $175 million under this program. This represents an increase of $25 million over the total workshop sales of $150 million in fiscal year 1981.

Blind workshop sales, including those through the military resale program, increased from $110 million in fiscal year 1981 to over $119 million in the past year.

Government sales by other severely handicapped workshops under this program were $56 million, an increase of nearly $16 million over fiscal year 1981.

During the past year, the committee approved the addition of 31 commodities and 50 services to the procurement list with a total annual value of $15 million. These additions created new jobs for over 500 blind and other severely handicapped individuals.

As of September 30, 1982, there were 227 blind and other severely handicapped workshops producing products or providing services for the Federal Government, an increase of 19 over the year before. This trend is expected to continue in fiscal years 1983 and 1984 with a commensurate increase in the workload of the committee staff.

The committee staff made 67 visits to workshops in fiscal year 1982 to insure their compliance with the act and the committee's regulations and to resolve production problems in producing commodities or providing services under the act. We are planning over 150 staff visits to workshops in fiscal year 1983.

The committee's appropriations for fiscal year 1983 was $653,000. The committee is requesting a pay supplemental of $9,000 in fiscal year 1983 for a total budget of $662,000. The pay supplemental represents 50 percent of the total increase due to the Federal pay raise that went into effect in October 1982 and the added costs related to paying the employer's share of the medicare hospital insurance tax.

This committee's appropriations request for fiscal year 1984 is for $687,000. This is an increase of $25,000 over our total budget for fiscal year 1983 and is made up of a number of minor adjustments in the costs we are forecasting in fiscal year 1984.

Our fiscal year 1984 budget request represents the minimum funds the committee needs to discharge its responsibilities in expanding employment opportunities for blind and other severely handicapped persons in the coming year.

BUDGET REQUEST

Mr. COOK. Thank you, Mr. Parkinson.

It is a pleasure to be here today to present the appropriations request of the Committee for Purchase from the Blind and Other Severely Handicapped for fiscal year 1984.

This committee was created by the Javits-Wagner-O'Day Act—Public Law 92-28—in 1971. The committee is the successor to the Committee on Purchases of Blind-Made Products established by the Wagner-O'Day Act of 1938. Its purpose is to increase employment opportunities for blind and other severely handicapped, and whenever possible to prepare these individuals to engage in a normal competitive employment. The committee's primary means of achieving its objective is to direct the Government's procurement of selected commodities and services to qualified workshops serving the blind and other severely handicapped.

Our appropriation for the current fiscal year, 1983, is $653,000. We have requested a pay supplemental for fiscal year 1983 in the amount of $9,000. This represents about 50 percent of the total increase in pay, including the Federal pay raise which went into effect last October, and the added costs related to having to pay the employers' share of medicare, for a total budget in fiscal year 1983 of $662,000.

Our appropriation request for fiscal year 1984 is for $678,000. This is an increase of $25,000 over the total budget for fiscal year 1983. The increase is made up of a number of minor adjustments and costs we are forecasting in fiscal year 1984. We believe this budget represents the minimum funds required by the committee to discharge its responsibilities in employing blind and other severely handicapped persons in the coming years.

The entire cost to the committee equates to about three-tenths of 1 percent of the value of the program that it is administering.

I would be happy to answer questions.

Mr. PARKINSON. Thank you.

WORKSHOP VISITS

I note in your statement that you project 150 visits to workshops in fiscal year 1983. Could you elaborate a little on what the committee looks for, what is entailed in those particular visits?

Mr. COOK. There are two basic functions. One is to assist the workshop, and the other is to determine if they are in compliance with the provisions of the act which make them eligible for inclusion in the program, such as maintaining the appropriate number of blind or severely handicapped workers in their total work force.

HANDICAPPED WAGES

Mr. PARKINSON. There has been considerable concern about underemployment and unemployment levels of handicapped individuals. As a matter of fact, in the jobs bill that is now being considered by the Senate, there was $5 million included for employment of the handicapped in the full Appropriations Committee.

Does the committee have wage scale projections currently for the handicapped individuals, or is there a comparable—I guess basically how it compares with nonhandicapped people in the work force.

Mr. COOK. In the case of the blind, generally it equates to the minimum wage or higher. In the case of the other severely handicapped, it is a little bit lower than the standard minimum wage.

The Department of Labor establishes the minimum wage rates for the persons in these workshops.

ITEMS ON PROCUREMENT LIST

Mr. PARKINSON. How many articles are included on your procurement list? Could you give us an idea of what those are?

Mr. FLETCHER. As of November 1982, there were 348 groups of commodities broken out into some 1,259 different stock numbers. For example, ballpoint pens come in medium and small point and blue and black, so there may be several stock numbers for one type of ballpoint pen.

In addition, we had 35 services at 206 locations. These are janitorial services, grounds maintenance, mailing services, and the like. There are also 109 military resale items which were being sold through the military commissaries and military exchanges under our program. The total value of sales to the Government in fiscal year 1982 directly to the Government was $162 million, plus an additional nearly $13 million through the military sales program, for a total of about $175 million.

PRICES

Mr. PARKINSON. Very good. Considering those sales, the dollar figure sales, is there a price comparability between, say, workshop-produced products as well as to commercially available products?

Mr. COOK. Yes; one of the principal functions of the committee is to establish a fair market price, and the price we establish represents what we determine to be the reasonable price in the marketplace, frequently calculated by comparing the range of offers that the Government has received for the same item.

Mr. PARKINSON. Thank you very much, gentlemen. We may have other questions from the subcommittee. We appreciate your appearing here today. If we do have other questions, we will keep the record open.

Mr. COOK. Thank you very much.

Mr. PARKINSON. Thank you.

FEDERAL ELECTION COMMISSION

STATEMENTS OF:
COMMISSIONER DANNY LEE McDONALD, CHAIRMAN
COMMISSIONER LEE ANN ELLIOTT, VICE CHAIRMAN

ACCOMPANIED BY:
B. ALLEN CLUTTER, STAFF DIRECTOR
CHARLES N. STEELE, GENERAL COUNSEL

PREPARED STATEMENT

Mr. PARKINSON. Our next witnesses today will be Commissioner McDonald and Commissioner Elliott of the Federal Election Commission. We welcome you to the subcommittee. I would ask you to introduce your colleagues at the table and proceed in the manner that you like.

Your entire statement will be made part of the record.

[The statement follows:]

STATEMENT OF DANNY LEE McDONALD

It is our pleasure to appear before you today to testify in support of the Federal Election Commission's Fiscal Year 1984 appropriation request.

The Commission is seeking $10,343,139 for Fiscal Year 1984. We arrived at this figure last August by calculating that we would need a minimum of $10,179,839 to carry out our duties during FY 1984, a presidential election year. To this we have added $163,300 for Phase 1 of a study to develop voluntary standards for voting systems. This project is a follow-up to the survey on needs for such standards mandated by Public Law 96-187.

Our total request of $10,343,139 is a bare-bones, no-frills budget. Mr. Chairman, we need every cent of this request. Please note that this figure does not include any portion of the executive pay raise or the Commission's portion of Medicare payments, both enacted after our budget request was developed.1/

In order to fully explain our needs and to show you the use to which these funds will be put, it would be helpful to review the Commission's budget history.

BUDGET HISTORY

Since the Commission's inception in 1975, the actual appropriation to the Commission climbed every year until 1982. In that year the actual appropriation dipped sharply. The appropriation rose again in 1983. Table I and Chart I, which depict the FEC's budget history, show the Commission receiving its largest appropriation in 1983. The initial amount

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1/ These items will bring our FY 1984 minimum required level to $10,375,000.

appropriated was $9,700,000. We anticipate a supplemental covering 50 percent of our increased pay costs in the amount of $197,000, bringing the total 1983 appropriation to $9,897,000.

Both Table I and Chart I also show the Commission's appropriations adjusted for inflation based on 1974 dollars.[2] These figures indicate that, based on adjusted figures, the Commission had more real dollars to spend in 1979 than in any previous or subsequent year. We reached an all-time low in real dollars in 1982. This rose just slightly in 1983. The amount we are requesting in 1984 equates to $5,172,500 when adjusted for inflation based on 1974 dollars.[2] This is the third smallest amount in real dollars appropriated in the Commission's eight year history.

We hope that this historical summary demonstrates that our 1984 budget request is an extremely modest request.

TABLE I

FEC BUDGET HISTORY[a]

FISCAL YEAR	ACTUAL APPROPRIATION	APPROPRIATION ADJUSTED FOR INFLATION (1974 Dollars)
1976[b]	$5,000,000	$4,583,000
1977	$6,180,000	$5,355,000
1978	$7,610,000	$6,172,000
1979	$8,293,000	$6,268,000 (High)
1980	$8,946,000	$6,077,000
1981	$9,662,000	$5,782,166
1982	$9,174,000	$4,986,000
1983	$9,700,000 + 197,000 [c] $9,897,000 (High)	$5,043,000
1984 Request	$10,343,139	$5,172,500

[a] Does not include $500,000 in start-up costs received in FY 1975.

[b] An additional $1,250,000 was received for the Transition Quarter following 1976.

[c] Anticipated Salary Supplemental.

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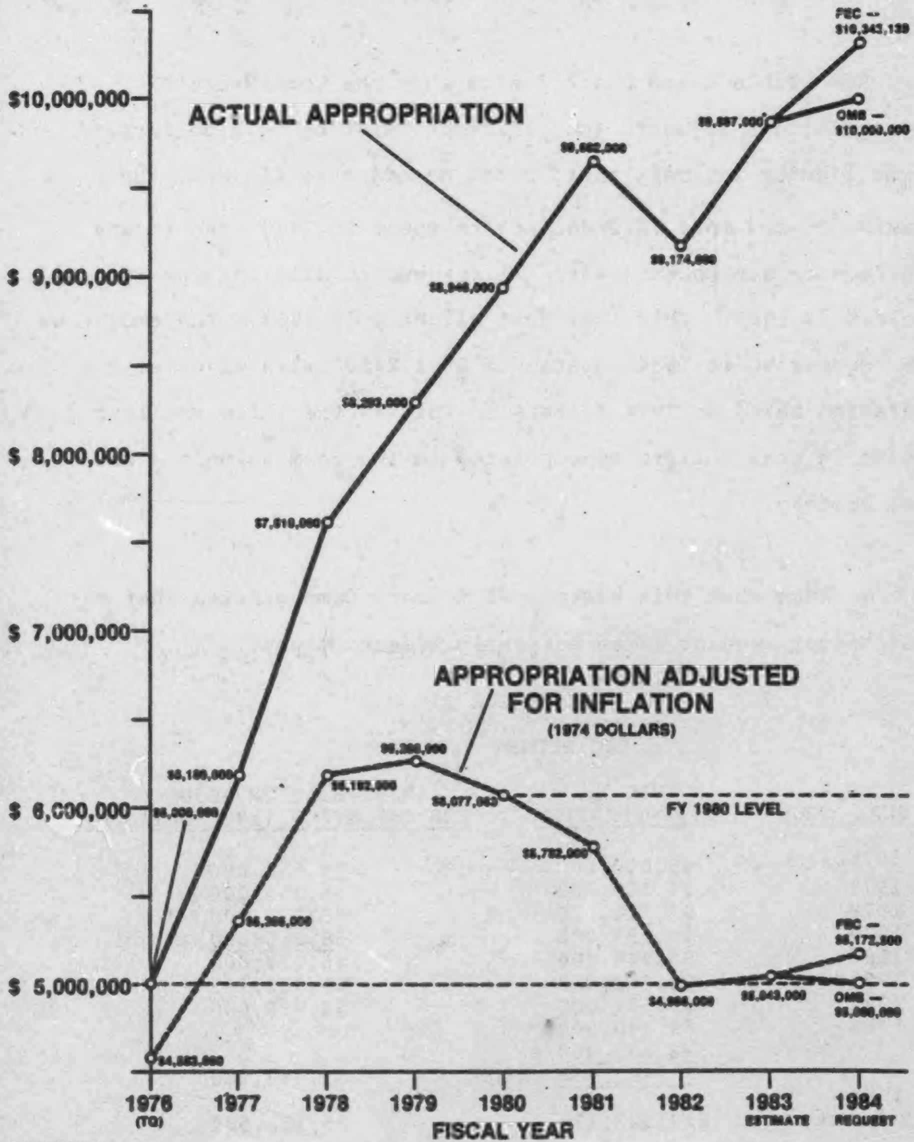
[2] 1974 was chosen because it predates establishment of the FEC by one year and it is the base year used in the Federal Election Campaign Act for indexing coordinated party expenditures and spending in publicly-financed presidential campaigns.

CHART I

FEC BUDGET HISTORY



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*$9,700,000 appropriation plus $167,000 requested salary supplemental.

1984 REQUEST IN PERSPECTIVE

As you are aware, Mr. Chairman, the workload at the Commission in Fiscal Year 1984 will not merely reflect a continuation of our 1983 activity. 1984 is a presidential election year. The Commission has special mandated responsibilities during this period. Not only will there be many additional reports to be disclosed and reviewed, but the Commission must act on requests for funds from the Presidential Election Campaign Fund for primaries, party conventions, and the general election. There are compulsory certification of public funds as well as audit functions in connection with presidential public funding. In addition, publication costs, reports review costs, public information costs, and enforcement costs all accelerate during presidential election cycles.

In Fiscal Year 1980, the last period when the Commission faced responsibilities comparable to FY 1984, we had a staff of 271 persons and an appropriation of $8,946,000. If we were to request an amount in dollars adjusted for inflation equivalent to what was received in 1980, we would now be asking you for $12,174,000. Our dollar request is substantially below this. We are also requesting substantially fewer employees. We are seeking the equivalent of 245 full-time employees, rather than 271 full-time employees on board in 1980.

Chart II shows the estimate by OMB of funds needed to continue services at the 1983 level. OMB's estimate of $10,173,000 is slightly lower than the Commission's initially-projected $10,179,839. It shows the OMB FY 1984 recommendation of $10,000,000, it shows the Commission's budget request of $10,343,139, and it shows the amount we would request if we were to adjust our 1984 budget to 1980 dollars ($12,174,000).

Chart III shows our actual appropriation since 1980 adjusted for inflation based on 1980 dollars.

CHART II

FEC FY 1984 BUDGET CONSIDERATIONS

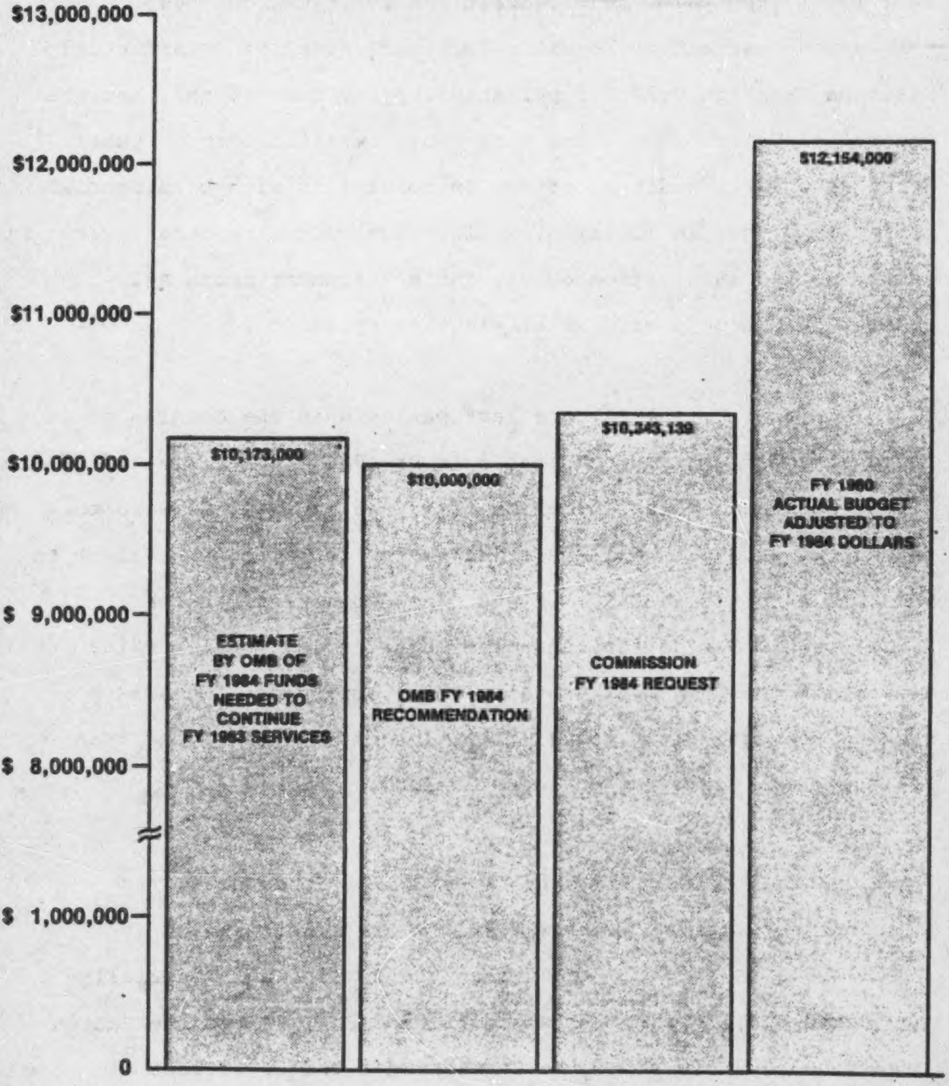
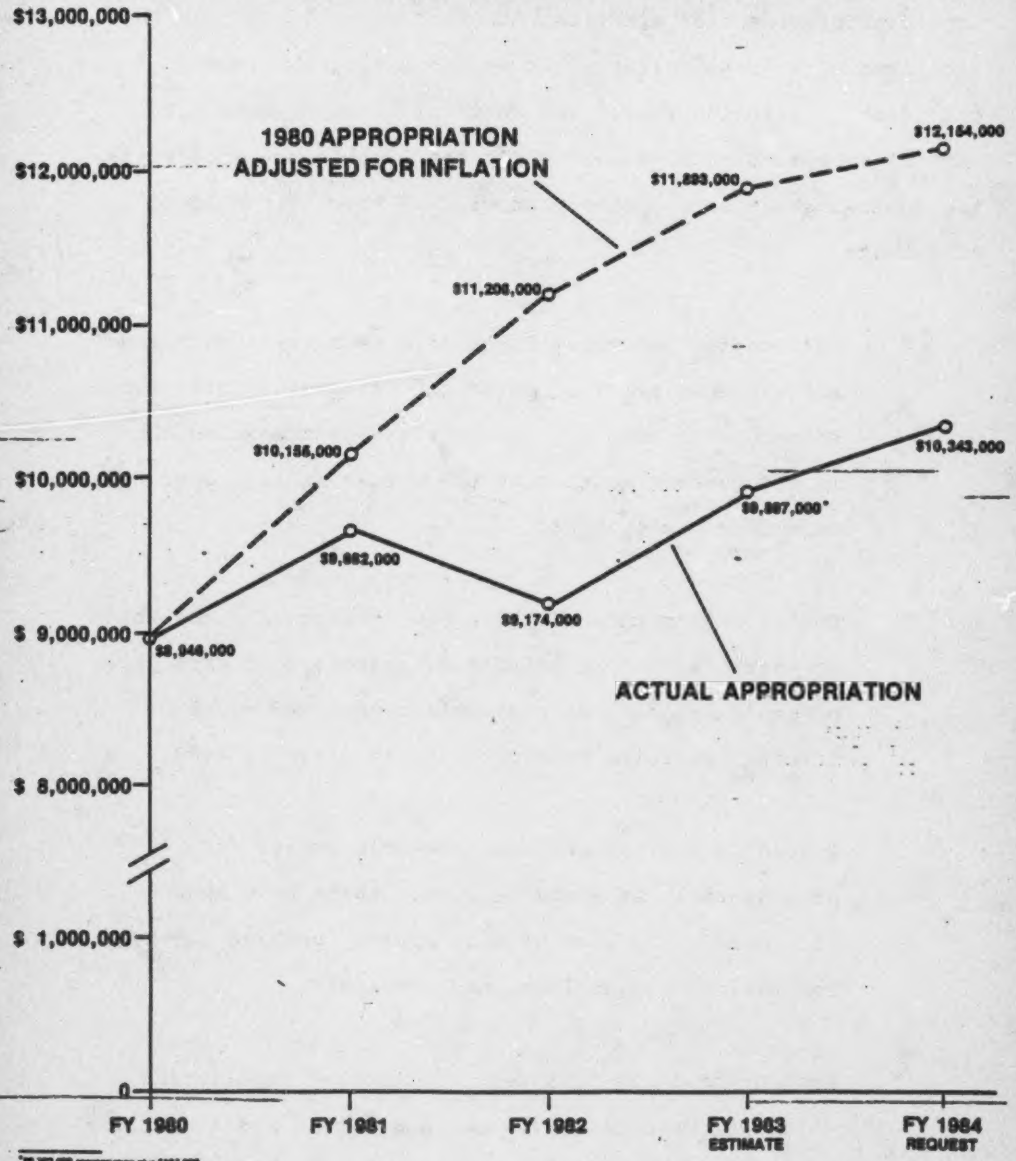


CHART III

FEC ACTUAL BUDGET COMPARED TO CONSTANT 1980 REAL DOLLAR LEVEL



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*$9,700,000 appropriation plus $197,000 requested salary supplemental.

ECONOMIES

It is logical to ask how we can function during the important presidential election year when we will not have the same funding in real dollars that we had during the last presidential election year. The answer is that we have put several economies into place. While the list is not exhaustive, the following are some of the economies we have been able to effectuate.

- Data coding and entry function: We have reorganized and systematized the coding and entry of information from reports into our computerized data base so that more documents go through the system at less cost and on a more timely basis.

- Review of reports: We have new systems in place which speed and make more uniform our handling of each page of every report. We have enforcement and audit referral policies that were not in place in 1980.

- Threshold audits: We had threshold audits for presidential campaigns in 1980. These have been eliminated. In lieu of such audits, we have improved regulations, guidelines, and manuals.

- Regulations: We have sent to Congress regulations which we anticipate will cut audit time and streamline internal Commission procedures with regard to presidential primaries. Similar revisions to the general election regulations will soon be acted on.

- Certification: In 1980, certification of eligibility for funds was a function of permanent Audit Division personnel. This function will be accomplished with temporary personnel supervised by fewer experienced permanent staff.

- Equipment: We purchased a machine which makes paper prints from microfilm. When documents are filed they are filmed and developed in an overnight process. When the microfilm is returned to the Commission the next morning, paper copies are made and immediately put on file. Of the reports filed with the FEC, 98 percent go on the public record within two business days.

- Employees: Many Commission employees have been on the staff for a number of years and are experienced. Savings are realized because employees are more experienced and thus work more efficiently. For example, most of our auditors have been with us over six years and have at least three congressional election cycles and one presidential election cycle behind them.

Mr. Chairman, the Commission has made substantial, and I believe successful, efforts to establish procedures which make full use of the funds appropriated to us. While there are undoubtedly more economies that we can make, we do not see economies that can be made quickly enough to have further impact on the 1984 budget. We are constantly alert for additional improvements and have this as our number one economic goal.

1984 BUDGET BREAKDOWN

The budget of the Federal Election Commission is personnel intensive. The 1984 budget that we are requesting will allocate

71 percent of our budget to personnel. As you are aware, a personnel intensive budget prevents quick changes in the way money is used and has an inherent escalating factor within it. The Commission's 1984 budget however, assigns about the same proportion of funds to personnel as has been the case since our inception.

The following table shows the percent of FEC budget assigned to personnel since its inception.

TABLE II

PERCENTAGE OF FEC BUDGET FOR PERSONNEL COSTS

FY 1976 -- 71.53%

FY 1977 -- 64.63%

FY 1978 -- 61.50%

FY 1979 -- 66.54%

FY 1980 -- 72.26%

FY 1981 -- 72.36%

FY 1982 -- 75.09%

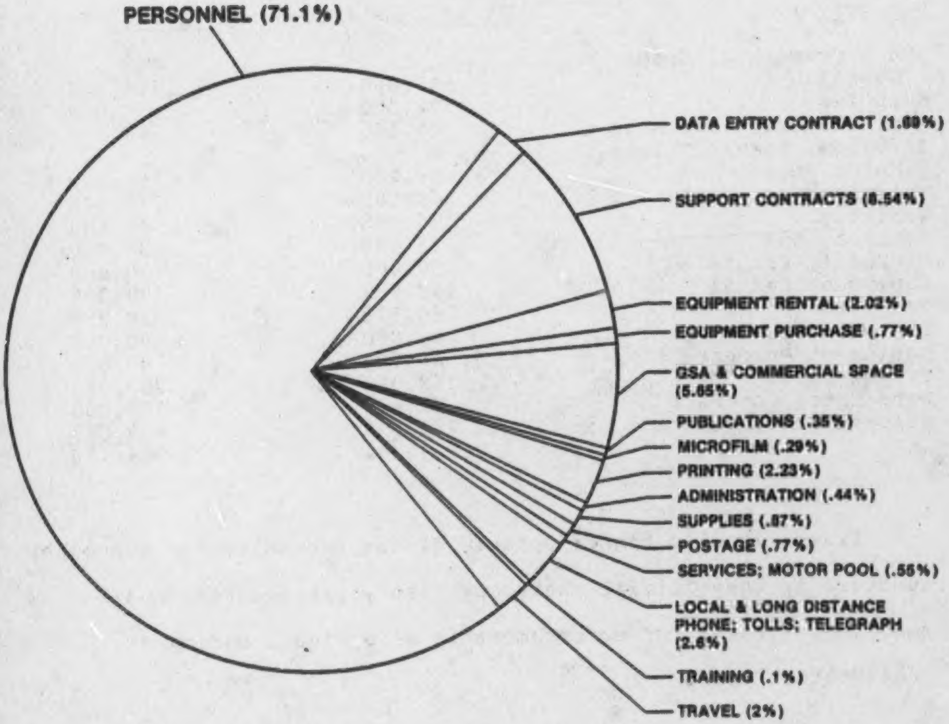
FY 1983 -- 73.24%
Estimate

FY 1984 -- 71.10%
Request

Chart IV breaks our FY 1984 budget request into its component parts.

CHART IV

FEC FY 1984 BUDGET BREAKDOWN



NON-PERSONNEL COSTS

Non-personnel costs in our 1984 budget request amount to $2,989,110. This amount is only $340,446 above our 1983 estimate of $2,648,664. Table III and Chart V contrast various categories of non-personnel costs between our 1983 estimates and our 1984 requests. As you can see, data entry and support contracts are the two areas which show the biggest dollar change. Besides the funds requested for developing voting systems standards, the increased 1984 figures are merely a reflection of the increased workload that the Commission faces during a presidential year, as well as a modest inflation factor.

TABLE III

FEC NON-PERSONNEL COSTS, FY 1983 AND FY 1984

Category	FY 1983 Estimate	FY 1984 Request
GSA & Commercial Space Rental	$ 583,868	$ 584,107
Supplies	92,000	90,000
Administrative Expenses	45,000	46,000
Services, Trans. Things, Motor Pool	56,200	56,500
Telephone and Telegraph	260,800	271,500
Training	20,000	10,000
Publications	35,000	36,000
Microfilm Prints	30,000	30,000
Equipment Rental	193,099	209,000
Printing	236,572	230,390
Postage	66,000	80,000
Equipment Purchase	60,000	80,000
Travel	153,000	207,000
Data Entry Contract	75,492	175,000
Support Contracts	741,633	883,613
	$ 2,648,664	$2,989,110

Travel is also higher because of the necessity for travel by auditors as they fulfill their compulsory presidential audit function. Travel for enforcement is also higher during a presidential year.

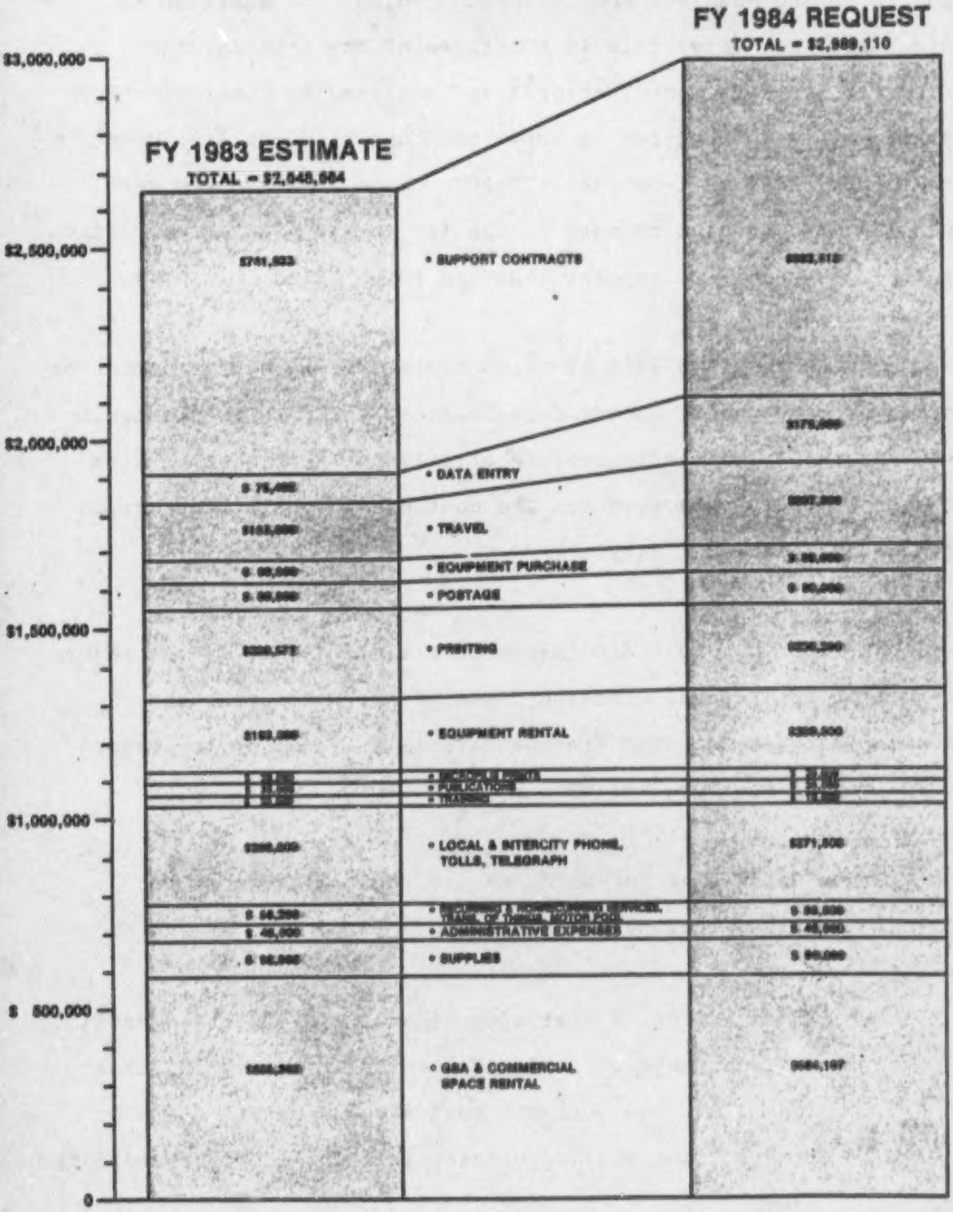
These estimates assume that we will have no major disasters to our aging equipment and that we do not receive huge increases such as in space rental or in phone costs.

PRODUCTIVITY

It is very difficult to measure "productivity" in the corporate sense in the area of activity in which we are involved. We do, however, have a MIS (Management Information System) in place which measures the unit cost of many procedures. This

CHART V

FEC NON-PERSONNEL COSTS



gives us an early warning system as to what programs are costing as we move through our budget cycle.

One indication of increased workload is the pages of campaign finance disclosure documents made available to the public during the last four election cycles. In addition to disclosure activity, this is a measure of the transactions reviewed and data coded, entered and analyzed by Commission staff. This information is shown on Chart VI. You will note that the increases from the 1977-1978 cycle to 1979-1980 were substantial, despite changes to the law in early 1980 intended to reduce the number of reports that had to be filed.

During the 1983-1984 election cycle, we expect the number of pages of campaign finance materials made available to the public to increase dramatically because of filings in connection with the presidential election and the continued overall increase in campaign finance activity.

We feel that full disclosure on a timely basis is the major thrust of the Federal Election Campaign Act. Assuring the availability of campaign finance materials is one of the major functions of the Commission.

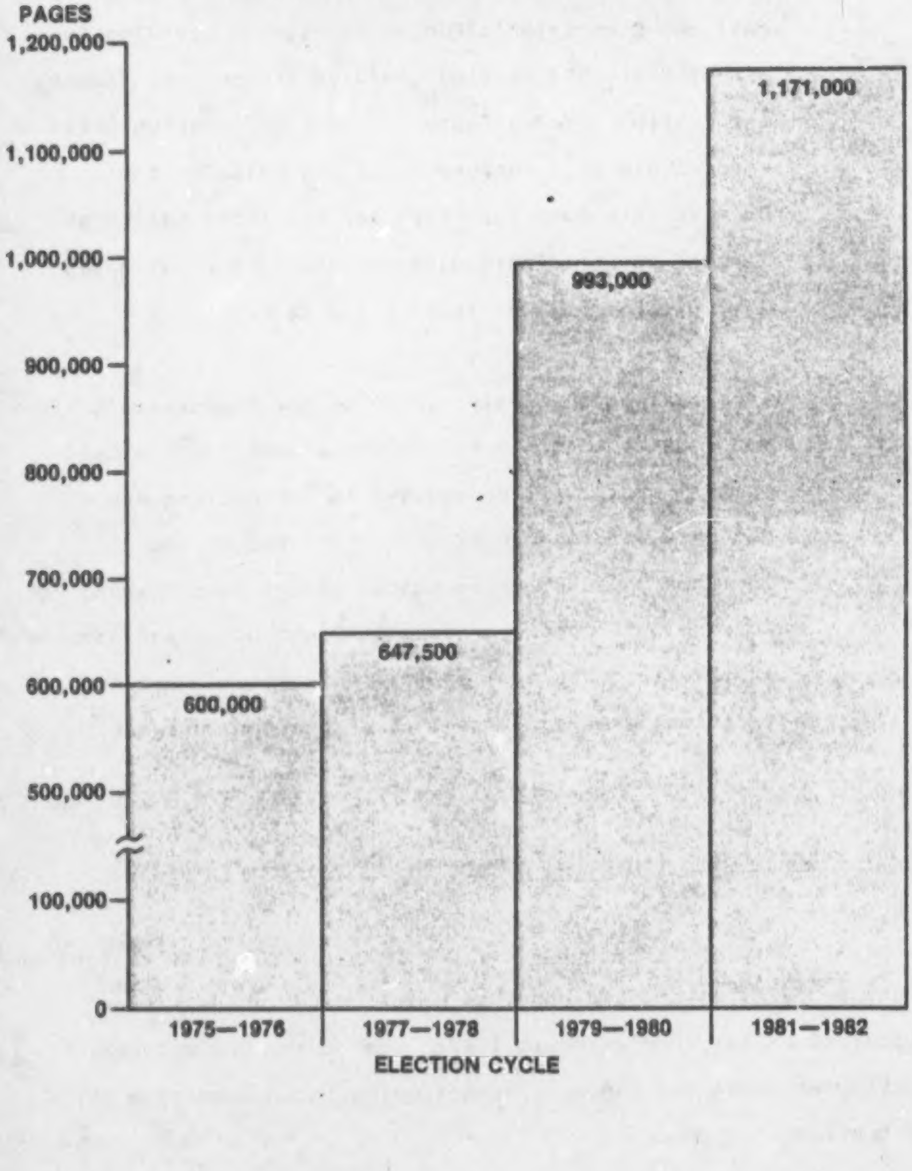
Other activities for which we are requesting funds for Fiscal Year 1984 include the following:

-- It is estimated that approximately 56,000 statements and documents will be received and reviewed in Fiscal Year 1984. We estimate that 400,000 detailed transactions will be entered into our computerized data base.

-- We project that ten candidates will be involved in the 1984 presidential primary elections. Two party conventions are expected to receive Federal funding,

CHART VI

PAGES OF CAMPAIGN FINANCE MATERIALS MADE AVAILABLE TO THE PUBLIC BY THE FEC



and the Commission projects that three general election campaigns will receive support from the Presidential Election Campaign Fund.

-- More than 25,000 people are expected to visit, write or call the Commission's Public Disclosure Division in Fiscal Year 1984 seeking campaign finance reports or information. We estimate that our Information Division specialists will respond to 50,000 calls on the Commission's four toll-free and two local telephone lines. We anticipate distribution of approximately 15,000 informational letters and packages.

-- In anticipation of expiration of the Commission's six-year ADP contract in FY 1985, the Commission's Data Systems staff will be engaged in reprocuring ADP contract services in FY 1984. The budget request includes $40,000 for technical advice in reviewing the Commission's computer needs in light of recent advances in the field, as well as for assistance in meeting the technical GSA requirements for the reprocurement process.

1982 EMBEZZLEMENT

In asking you for funds for our next fiscal year, we feel we must be perfectly candid about an unfortunate incident that occurred at the Commission in 1982. One of the FEC's former employees embezzled funds. The following facts summarize this situation:

The employee believed he was taking funds from the FEC's receipts account, which the Agency can only use to refund overpayments. He did not attempt to take from our appropriation account, because he knew it was monitored and he would get caught.

A total of 22 checks were drawn to the embezzler or his designees; but he was caught so quickly that he had only time to cash 17 of these checks. He attempted to embezzle $558,190.68. The total amount he actually embezzled was $396,010.10.

The Commission had the immediate cooperation of the Secret Service. They arrived at Federal Election Commission offices within an hour after they were called and remained at the Commission almost full time until the embezzler was apprehended in his office when he returned from leave. The embezzler cooperated fully with the Secret Service and turned over to the Government his farm, a truck, two other automobiles, glassware and fine china, investments, and other tangible items. Most of the stolen money will be repaid to the Government. Liquidation of the property, being handled by the Department of Justice, is proceeding. Some funds have been returned to the Commission. We may use $43,000 of the recovered funds to pay 1982 unemployment compensation expenses. Because the Commission did not have the funds to obligate before the end of the fiscal year, $353,000 is no longer available to us to use even though those funds may be recovered.

The embezzler pleaded guilty, was sentenced and is currently serving a twenty month prison term. A civil action is being taken against him to recover embezzled funds and a civil penalty is pending.

Immediately upon the discovery of the embezzlement, the FEC's auditors examined the pertinent FEC accounts. We knew within days the total extent of the embezzlement, the method used, and how the opportunity for embezzlement occurred. In addition, we have asked the GAO to conduct an audit. They have been very cooperative and auditors are currently at work at the Federal Election Commission.

Mr. Chairman and Members of the Committee, I assure you we have reviewed our procedures and personnel assignments, have made necessary changes, and will continue to do whatever necessary to assure that we are as embezzlement-proof as it is possible to be.

CONCLUSION

Mr. Chairman and Members of the Committee, the Commission firmly believes that it must continue all mandated activities under the law at an adequate level. Your approval of our full Fiscal Year 1984 request would permit this.

Thank you for your consideration of this request. We would be pleased to respond to any questions you might have.

INTRODUCTION OF ASSOCIATES

Mr. McDonald. Thank you. I will be very brief.

We are pleased to have an opportunity to appear before the subcommittee today. Mrs. Lee Ann Elliott, who is Vice Chairman of the Commission and the Chairman of the Finance Committee, will give the main thrust of our testimony today.

To my immediate right is Charles N. Steele, who is the General Counsel, and to his immediate left is B. Allen Clutter, who is the Staff Director.

We will be pleased to try to answer any questions that you might have. If it is agreeable, I will turn it over to Commissioner Elliott.

Mr. Parkinson. Please proceed.

Mrs. Elliott. It is our pleasure to give you the detailed justification for the Federal Election Commission fiscal year 1984 appropriation request. With your permission, we would like to use visuals in order to compress our testimony.

Mr. Parkinson. Certainly.

SUMMARY OF REQUEST

Mrs. Elliott. The amount we are requesting today is $10,343,139. This is based on the current services level of $10,179,839, to which we have added an amount of $163,300.

This last amount is for phase I of a study to develop voluntary standards for voting systems. As you know, a survey on the need for such standards was mandated by Public Law 96–187.

This amount that we are requesting, the $10,343,139, does not include the executive pay raise, nor does it include the FEC's portion of medicare payments.

If we were to include those figures, we would have to request an additional $195,000.

DECLINE IN REAL DOLLARS AVAILABLE

In order to show our budget plight a little more graphically, I draw your attention to this chart. It is on page 4 of our testimony if this chart is difficult to see. It shows that we had continuous increases until 1982, when we had a sharp drop, and then have risen again. We are asking for an additional increase for fiscal year 1984.

That is in the actual appropriation. But I direct your attention to this lower line, which shows the real income we had adjusted for inflation based on 1974 dollars.

This shows clearly that our best year in terms of money available to spend was 1979. It dropped in 1980 and 1981, and hit an all-time low in 1982.

We have a small increase in our estimate for 1983, and we are requesting a small increase in 1984.

We would like the committee to be very aware that this is a barebones, no-frills budget. We need every cent of the amount we are requesting. While we based this estimate on 1983, we are not merely to a continuant of our 1983 activities, because 1984 is a Presidential election year. We have many increased responsibilities. We have many additional reports that have to be disclosed and reviewed. We have the Presidential Election Campaign Fund that must be administered for primaries, party conventions, and for the general election.

We have a compulsory audit function for those Presidential candidates who get Federal funding.

Enforcement always goes up in a Presidential election year. Publication costs, costs of our information services, press costs go up. Commissionwide we incur additional costs because of the added volume of activity.

In 1980, we received an actual appropriation of $8,946,000. Adjusted for inflation, if we were to get the same amount that we had in real dollars in 1980, we would be here asking for $12,154,000.

I would like to demonstrate that point in a different way, to add some perspective to our request. The first bar on this chart shows the OMB estimate of current services.

The second shows the OMB recommendation of $10 million. The third shows, our request, and the fourth shows, the actual amount that we would have to have if we were to receive the same real dollars that we used in 1980. Also, our 1980 budget included 271 employees, while our current budget asks for just 245.

OPERATING ECONOMIES

It is quite legitimate to ask, "How can you do it for that much less?" Our response is, we have put in an impressive number of economies.

First of all, we have new systems in place which make it less costly to handle our data coding and entry functions. We can act in a more timely basis than in previous years.

We have a responsibility to review reports. We have new systems in place which speed up the process. Every time we increase uniformity or speed, that saves our payroll.

Enforcement and audit referral policies that were not in place in 1980 are in place today.

During the 1980 elections, we had threshold audits. We don't have those any more. They have been eliminated. Now we feel that our new regulations, the guidelines, and manuals are explanatory and serve that function.

The regulations themselves are effecting economies for us. The Presidential primary regulations are being considered by Congress right now. We anticipate that Presidential general election regulations will also be revised shortly.

Another example of our savings is in the certification process. In 1980, we thought it was necessary that the certification process be done by auditors. Now, we feel that this can be done with temporary personnel if they are carefully supervised by our permanent staff.

Equipment purchases have helped us do things in a more cost-effective manner. We have one machine that makes paper prints from microfilm, so we are able to meet our mandated standard of having all records that come into the House, the Senate, and the Federal Election Commission on the public record within 2 business days.

We have a good employee situation. When you have experienced employees who have been around and know the ropes, it helps a lot. For instance, most of our auditors have been here for 6 years. That means they have three congressional elections and a Presidential election behind them.

The point I want to make is that we are making full use of the funds appropriated to us. Now, surely there are more economies that we could make, but we don't see additional economies that can be made fast enough to impact on our 1984 budget.

PLANNED USE OF FUNDS

I would like to call your attention to this chart showing how we plan to spend this money. This appears on page 13 of the testimony. You will see that we are quite personnel intensive. Personnel accounts for 71.1 percent of our budget. The nonpersonnel items amount to just about $3 million. After personnel, the largest amount is support contracts, which comprise 8.54 percent of our budget.

The next largest amount is for space. That comprises 5.65 percent. The next one is local and long-distance phone calls. The total phone bill is 2.6 percent of the budget.

No other category is more than 2.5 percent.

COMPARISON OF 1984 WITH 1983

This next chart covers the same material, but it contrasts our 1983 estimate of what we will spend with what we would spend the money for in 1984. You can see that everything is just pretty much the same until we get to travel. Travel will have to be more because our audit and our enforcement expenditures go up dramatically in an election year.

We have more for data entry because we will need so many more reports, and we have additional support contracts.

Incidentally, the added amount of $163,000 is in the support contracts.

We have very little outreach in this budget.

As far as productivity goes, we have in place a management information system—MIS—which lets us follow the cost per unit of effort in all of our programs. By this system, we can measure how much things are costing us, and when economies occur.

FEC WORKLOAD

One indication of our workload is the number of pages of campaign finance material made available to the public by the FEC. As you can see, these are by election cycles, and it rose from 1976 to 1978, and took a big leap in 1980. It leaped again in 1982. The interesting thing is that during the 1980 cycle, the law changed, requring that fewer reports be filed. Even so, the number of reports took a big, big leap. We expect the next bar to go right off the chart in 1984.

THE 1982 THEFT OF FUNDS

There are quite a few details of how we plan to spend our funds in our testimony. We stretch every dollar. We have done a good job in stretching it.

We did have an unfortunate incident in 1982 that we would like to explain. One of our former employees embezzled from us. It should be pointed out that he attempted to steal from a refund account, of which we have very limited use. It can only be used to refund overpayments.

He did not attempt to embezzle from the appropriated funds, knowing that he would certainly be apprehended because we keep a close watch.

A total of 22 checks were drawn fraudulently, but 5 of them were caught so fast that only 17 were actually cashed before the Secret Service caught the embezzler.

The attempt was to embezzle $558,000. The actual amount embezzled was $396,000.

So we were able to catch a lot of it. The Government is holding a number of assets that will be converted to cash. The Government has already received some money back.

The Federal Election Commission only has use of $43,000 of the funds we get back, which will be used for 1982 unemployment compensation payments; $353,000 is lost to us forever.

The embezzler pleaded guilty and is currently serving a prison term. We had Government-wide cooperation. The Secret Service, Treasury and Justice Departments, and the GAO all cooperated. We are currently undergoing a GAO audit which we requested. We are very pleased with the cooperation we have received.

DETERIORATING PHYSICAL PLANT

I would be remiss if I did not warn this committee that we will soon need a substantially larger budget. Most of our equipment is getting old at the same time. Some days, the air-conditioner works. One day, less than 2 weeks ago, a boiler burst and all the water for the entire building came down through our phone and electrical systems, out on the floors, ruining the carpets. It didn't make any difference. They are already ruined. They have holes and dnagerous ripples in them. We had a riot in the area that broke the windows in the front and the back. What I am telling you is that in a very short time we will need a budget to upgrade our equipment.

NEED FOR ADEQUATE BUDGET

The Commission believes firmly that it must continue all its mandated activities. This is where we have put our emphasis. We emphasize disclosure and assuring the Government, the community, and candidates that we are enforcing the law equally and with compassion.

We can only continue to do this under our full request.

Mr. Chairman, this concludes our testimony. We would be very happy to answer any questions you might have.

AREAS OF POSSIBLE REDUCTION

Mr. PARKINSON. Thanks, Commissioner Elliott. We appreciate that statement. You note in your presentation that the OMB or the President's proposed budget of $10 million will create a shortfall of approximately $340,000.

Could you tell me if that was not met and the $10 million was the final figure, what economies would have to be made to operate within that limit?

Mrs. ELLIOTT. Yes, sir, I can beqin to tell you that. However, I could not tell you any exact amount because the Commission as a whole carefully watches our entire budget. Every time there is an adjustment from what we have planned, it goes to the Finance Committee and, if it meets even a $5,000 threshold, goes to the entire Commission.

We would be voting on changes as time went on. We would have to have a complete reevaluation.

Obviously, when we have mandated functions, we must do those first. We also know that there is a great need for the information that the public wants. The press, the members of these committees, our oversight committees, and others all need information. This is an important service that only we can do.

However, that is not a mandated activity. We would have to slow it down. Instead of having final figures for 1982, for example, in May or June of this coming year, it might extend to the end of the year.

We would have to reduce the number of audits. We would have to reduce the number of enforcement actions and the way we handle them. At every point we would have to reevaluate, but it is critical for us to have this amount in our function.

SUPPLEMENTAL REQUEST

Mr. PARKINSON. You noted also in the figure that you projected that there was no money available for the payment of the supplemental pay raise and for medicare. Do you plan to absorb that in existing, or will that come as a later request?

Mrs. ELLIOTT. I will ask Allen Clutter to answer that.

Mr. CLUTTER. Yes; we have requested a fiscal year 1983 supplemental appropriation of $197,000 for the Commission, which would cover one-half of the pay increase, as well as a portion of the executive pay raise this year. Our fiscal year 1984 request does not include funds for these items. It is almost certain we will be forced to ask for a supplemental appropriation.

We, however, will be absorbing 50 percent of these costs.

AUDIT STAFF

Mr. PARKINSON. In past years, the audit staff was reduced. Could you expand a little on what impact that had, and also what steps, if any, have been taken to bring the audit staff back up to speed or to say it another way, state how they are handling the job with the fewer employees?

Mrs. ELLIOTT. Our biggest budget crunch occurred in 1982. At that time, we were in a congressional election cycle. We had a good audit staff that was experienced both in the congressional and the Presidential audits. When we just didn't have enough funds to make ends meet, we had to RIF some people. The place we could do that was in the audit staff because of reduced workload. We let go one-half of the audit staff.

Now, we are into the Presidential election cycle. We have to have more auditors. We think that we will be able to get some of those experienced auditors back on our staff. The Commission has taken the necessary action to authorize our Staff Director to accomplish this.

If we do this, we will benefit from the economies of experience. Economy doesn't mean just dollars to us. It also means speed. It speeds up the auditing of candidates' campaigns. We are not planning to bring the audit staff up to the previous level of 1980, however. Economies in such areas as certification that I have described will help us absorb the Presidential workload.

INFORMATION ACTIVITIES

Mr. PARKINSON. I am sure you are as aware as anyone that from time to time the committee gets complaints regarding the complexity and the confusion of the law. We see them from time to time, and I know the Commission has taken every effort to do all they can to simplify the law for the candidates and their committees.

I know that you have tried to publish materials et cetera. Have you had any response or feedback as to your efforts in that area?

Mrs. ELLIOTT. Yes; we have. We get very high marks from the public and the press for our public information and for our information specialists. We have an 800 number that is available all our working day. Information specialists answer questions from all over the country. The brochures that we have published have been very well received in all respects.

I can't think of any brochure that has not been well received.

Mr. PARKINSON. Thank you.

GAO AUDIT ASSISTANCE

Mrs. ELLIOTT. May I just make a previous answer a little fuller? You asked me about the auditors. I neglected to tell you that we will be having GAO auditors help us with the Presidential election. That is in the planning stage right now. All the approvals are in place. It is just a matter of implementing the program.

OUTREACH ACTIVITIES

Mr. PARKINSON. Thank you. Of course, you know of the chairman's concern about the outreach program. I know that he has stated it on a couple of occasions. Could you for the record provide us a little more in depth as to what the level of your outreach program today is, and say what figure might be needed to expand that by certain degrees, say by intervals of 5, 10, or something like that?

Mrs. ELLIOTT. We certainly will.

[The information follows:]

FEDERAL ELECTION COMMISSION OUTREACH

Included in the Commission's fiscal year 1984 appropriation request is a cutback outreach program which is a logical extension of our mandated responsibilities.

We publish regulations, guidelines, manuals, and brochures on problem areas for limited distribution.

We have scheduled three seminars in different areas of the country in fiscal year 1984 to assist candidates, committees, and State election officials.

There is a limited travel budget for Commissioners and staff to participate in programs, seminars, and courses sponsored by others.

It we had additional funds, we would prioritize an outreach program covering the following items:

"How to comply" seminars should be held in Washington, D.C. for candidates, party committees, and nonparty political committees;

The same type of seminars should be expanded to different parts of the country;

Specialized seminars should be held for Presidential campaign staffs;

There should be increased travel by Commissioners and other staff to seminars and programs sponsored by others (We do not yet have statutory authority to accept reimbursement from program sponsors other than "501(c)(3)" organizations);

There should be wider distribution of FEC publications; and

The Commission should have a full-fledged press operation, rather than one that is primarily responsive.

UNREIMBURSED OUTLAYS

Mr. PARKINSON. You noted, also, in your presentation about the projections of what strain the Presidential election campaign, is going to place on the Commission itself, and it is also the committee's understanding that the Commission does not receive any money for the services they render as far as administering the Presidential matching campaign funds.

Mrs. ELLIOTT. That is quite correct. As a matter of fact, we don't even recover the amounts of money that are brought to us for xeroxing and publication costs. Those are expenses to us, and even though the public is charged a small amount to cover duplicating costs and other things, we don't recover any of that.

Mr. PARKINSON. Do you have any figures on what that might be?

Mrs. ELLIOTT. Yes; I believe we do.

During fiscal year 1981, we received $57,544 in miscellaneous receipts, as we call those kinds of things. We have a partial figure for 1983; that is $45,616.

Mr. PARKINSON. Has there in the past been any discussion with Treasury or any negotiations for offsetting or reimbursement on that?

Mrs. ELLIOTT. I am too new to know. May I refer the question to Mr. Clutter?

Mr. CLUTTER. I believe the Treasury's position is that a statutory change would be required to allow the Commission to use those funds. Those are now deposited in the general Treasury accounts.

Mr. PARKINSON. Thank you.

Mrs. ELLIOTT. We would welcome your support in that regard.

Mr. PARKINSON. We will certainly look at it.

ADDITIONAL COMMITTEE QUESTIONS

I know that there will be some other questions. Senator DeConcini, the ranking minority member, indicated he has written questions he will submit, and should other members of the subcommittee also have questions, I would ask the record be kept open, and that you respond in writing to them.

That basically concludes any questions that we have at this time. In the absence of the chairman, I would thank you very much for coming with us today, and we will look forward to working with you as we develop the budget, and as we come toward the time of the presentation of the appropriations bill.

Again, we thank you very much.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DENNIS DECONCINI

Question. You indicate on page 2 of your budget justifications that a key factor in the Commission's planning for fiscal year 1983, as well as the fiscal year 1984 budget request, is the addition of eight employees to the Audit Division by April 1, 1983. You go on to say that without sufficient funds to provide for these staff, the Commission cannot meet its obligations under the public financing provisions of the Federal Election laws.

What specific audit activities would you have to forego if we were to approve the administration's pending budget request of $10 million. Be specific and tell us what election activities would fall through the cracks. (PAC contributions, corporate donations, et cetera.)

Answer. The law dictates that the Commission perform certain audit functions. This is not an area in which there is much discretion to make cuts. Thus, shortage of funds would not result in having to forego audit activities, but could mean that there would be delays in such areas as certification of matching funds for candidates and the completion of audits.

The Commission would examine its entire budget if reductions were necessary, focusing attention on those few areas where there is discretion in allocating resources.

Question. Commissioner McDonald, it would appear that one way to get some of the much needed audit staff relief that you obviously require to do the job in the 1984 election cycle is to shift some positions out of the Commissioners' offices; the staff director's office; and administration. Those three divisions account for over 50 positions in fiscal year 1983 and 1984 (20 FTE in Commissioners' offices; 16.5 in staff director's offices; and 14 FTE in administration). If you were to reconfigure eight of those slots in fiscal year 1983 and 1984 to audit positions, you would apparently be able to meet your shortfall in the Audit Division at no additional cost to the Commission.

For example, on page 8 of our budget book, you indicate that there are two full-time staff assigned to each of the six Commissioners and one additional staff person for the two special deputies representing the Secretary of the Senate and the Clerk of the House. That leaves a total of four slots left over to be allocated for other purposes.

Why can't you look into shifting at least four slots out of the staff contingent in the Commissioners' offices and into Audit Division positions where the need is so great? Why wouldn't that work? And why can't you take another four slots out of the staff directors' staff and the administration staff and put them to work in the Audit Division?

Answer. The 20 positions in the Commissioner's offices are as follows:

Commissioner Danny L. McDonald, Chairman; Walter Moore, Executive Assistant to Commissioner McDonald; and Suzanne Hays, executive secretary to Commissioner McDonald.

Commissioner Lee Ann Elliott, Vice Chairman; Paul Sullivan, Executive Assistant to Commissioner Elliott; and Peggy Chaney, executive secretary to Commissioner Elliott.

Commissioner Joan D. Aikens; Anton E. Reel, III, Executive Assistant to Commissioner Aikens; and Joyce Thomann, executive secretary to Commissioner Aikens.

Commissioner Thomas E. Harris; Scott Thomas, Executive Assistant to Commissioner Harris; and Brenda Robinson, executive Secretary to Commissioner Harris.

Commissioner John W. McGarry; Anne Head, Executive Assistant to Commissioner McGarry; and Kathleen Ryan, executive secretary to Commissioner McGarry.

Commissioner Frank P. Reiche; Karen O'Donnell, Executive Assistant to Commissioner Reiche; and Betty Tysdal, executive secretary to Commissioner Reiche.

Judith Snopek, executive secretary to Thomas Josefiak, special deputy to ex officio member of the Commission W. F. Hildenbrand, Secretary of the Senate.

Jane Maguire, executive secretary to Douglas Patton, special deputy to ex officio member of the Commission Benjamin J. Guthrie, Clerk of the House of Representatives.

Each Commissioner needs adequate assistance in order to properly carryout his or her responsibilities for implementation, interpretation and enforcement of Federal campaign finance law.

The staff director's office manages overall Commission operations. It includes the personnel office, Office of Congressional Affairs, Office of Planning and Management, and Commission secretary. The Administrative Division is responsible for maintaining adequate space and material for Commission employees, as well as payroll and accounting functions, duplicating services, and essential messenger activities.

Both the staff director's office and Administrative Division have each been reduced from prior levels. Any further reductions would impair management and support services at the Commission. Rather than reallocating positions, the Commission feels it will be able to perform mandated audit functions in 1984 with the additional audit staff being hired, the use of temporary employees for certification of matching funds to candidates, and the assistance expected from the General Accounting Office.

Question. As you know, Commissioner, last year I suggested that you use, as much as possible, the auditing expertise in the General Accounting Office to supplement your existing audit work force. The law apparently allows such GAO assistance on either a reimbursable basis or a nonreimbursable basis. I notice on page 16 of your budget justifications that you plan to use 1.5 work-years of professional audit staff from GAO and other Government agencies.

Why can't you secure more GAO assistance during the crunch of a Presidential election year? Although GAO is busy, I can't think of a more important mission for them than to help apply their accounting expertise to the Presidential election cycle. Let me know what the obstacles might be to getting more GAO assistance even on a nonreimbursable basis.

Answer. The Commission intends to secure more professional audit assistance from GAO than the 1.5 work-years indicated. We have requested that GAO actually provide five auditors. Because the GAO auditors would start late in the fiscal year, they would only represent 1.5 work-years in fiscal year 1984. They would continue their activities through the peak Presidential audit workload period of fiscal year 1985. The Comptroller General has responded favorably to our initial inquiries.

Question. On page 27 of your justifications, I see that you are requesting $163,300 to pay for phase I of preparing actual voting standards. This is the first phase following a year study by FEC on the needs for voting systems standards. The study was mandated by Congress in section 302 of Public Law 96-187, I understand.

Although I know that this work is important, in light of your deep and understandable concerns about not being able to respond to the mountain of added responsibilities placed upon your agency by the coming elections of 1984, isn't the implementation of phase I something that could be postponed and the funds channeled into getting some staff help at FEC? What would be the downside of postponing this study implementation for 1 year?

Would any of the results of phase I be available to the States or localities to be used in time for the 1984 elections?

Answer. The project for which the Commission is requesting funds in fiscal year 1984 is a followup to the study mandated by Public Law 96-187. That legislation directed that the Commission's National Clearinghouse on Election Administration assess the needs for standards for voting systems.

An interim report is being released which concludes that standards for voting systems are both needed and feasible. If funds are available by October 1983, the report estimates that these voluntary standards could be in place for the November 1986 general elections. A delay now would miss the 1986 election cycle.

The Commission has requested funds for this project because of the great assistance such research would be to State and local election officials. As you know, these officials are responsible for the effective administration of both Federal and local elections. The Commission must first allocate funds to assure that all statutorily mandated responsibilities are fulfilled. Activities such as the project to develop voting system standards would have to be carefully examined if available resources are reduced.

Question. Your table on page 5 of your justifications shows that you plan to spend $65,000 for travel in the Information Division; $30,000 for administrative expenses in the Administration Division; and $100,000 for merit pay.

Could you explain to the committee why these three expenditures will be crucial to the FEC mission in fiscal year 1984 and why they cannot be pared back in light of your obvious financial crisis in the oncoming election year?

Answer. Most of the $65,000 in travel for the Information Division in fiscal year 1984 represents the cost of three regional conferences designed to provide information to candidates, political committee personnel and election officials. They will be similar to conferences in two other regions which are planned for fiscal year 1983 as part of the Commission's outreach activity.

Of the $30,000 in administrative expenses, $12,000 is for an interagency agreement with the Public Health Serivce to provide medical services for employes in an in-house facility (shared with the Internal Revenue Service, the building's other tenant). The remaining funds are used on an as-need basis to pay for such basic items as the taking of depositions, transcription services, special cleaning needs, and the repair of equipment and furniture.

Merit pay is paid to management officials and supervisors in lieu of automatic within-grade and comparability raises. Since it is set by law, the Commission is not at liberty to pare back these payments.

SUBCOMMITTEE RECESS

Mr. Parkinson. With that, the subcommittee will stand in recess until 2 p.m. Tuesday, March 22, 1983, when we will hear from the Office of the Secretary, Department of the Treasury, as well as the Internal Revenue Service.

[Whereupon, at 3:10 p.m., Tuesday, March 15, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, March 22.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1984

TUESDAY, MARCH 22, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met, at 2:30 p.m., in room SD–124, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

STATEMENT OF CORA P. BEEBE, ASSISTANT SECRETARY, ADMINISTRATION

ACCOMPANIED BY:
- WILLIAM E. DOUGLAS, COMMISSIONER, BUREAU OF GOVERNMENT FINANCIAL OPERATIONS
- DONNA POPE, DIRECTOR, BUREAU OF THE MINT
- W. M. GREGG, ACTING COMMISSIONER, BUREAU OF THE PUBLIC DEBT
- STEVEN R. MEAD, EXECUTIVE DIRECTOR, SAVINGS BONDS DIVISION
- MICHAEL D. PECOVISH, BUDGET AND PROGRAM ANALYST

OPENING STATEMENT

Senator ABDNOR. The Subcommittee on Treasury, Postal Service, and General Government will come to order.

Today, we are going to hear testimony from activities that are an important part of the Department of the Treasury. Cora Beebe, the Assistant Secretary for Administration, will present this goal of fiscal year 1984 budget request for the Office of the Secretary, International Affairs, the Bureau of Governmental Financial Operations, the Bureau of Governmental Public Debt, and the Bureau of the Mint.

And, Madam Secretary, we welcome you to the meeting and welcome the panel you have with you. We are anxious to hear from you. And again I apologize for keeping you waiting.

Ms. BEEBE. Thank you, Mr. Chairman.

We are very pleased to be here this afternoon and I'd like to begin, if I might, by introducing my colleagues here at the table. We also have a number of colleagues in the audience.

INTRODUCTION OF ASSOCIATES

To my far left, is Steve Mead, who is Executive Director of the Savings Bonds Division; to my immediate left is Ernie Douglas, who is Director of the Bureau of the Government Financial Operations; to my right is Michael D. Pecovish, Deputy Director of the Office of Budget and Program Analysis; to his right is Donna Pope, Director of the Bureau of the Mint; and to her right is Mr. William Gregg, Acting Commissioner of the Bureau of the Public Debt.

Before I go into my statement, Mr. Chairman, I would like to introduce to you our newly appointed Assistant Secretary for Fiscal Affairs, who is with us today. She has just come on board from the private sector, where she was a vice president at Bankers Trust. She has excellent experience in fiscal matters. Mrs. Carole Dineen.

I am also personally pleased to have with me today two members of my family; Susan and Dora Kingsley are here from California. They are both students of government, and they have come to join us today.

Senator ABDNOR. Welcome. We certainly welcome them to the committee hearing today. We hope you find things as you have been studying them and learning them in school. A pleasure to have you here.

And, Madam Secretary, we welcome you to the hearings also.

Ms. BEEBE. Thank you.

Senator ABDNOR. Proceed, then.

PREPARED STATEMENTS

Ms. BEEBE. Mr. Chairman, with your permission, I'd like to submit detailed statements for the several bureaus that are testifying here today and just read a very brief statement that covers each of our proposals, if that would be appropriate.

Senator ABDNOR. That will be fine, Madam Secretary, and I assure you that your statement and all the other members of the panel's entire statements will be made part of the record.

[The statements follow:]

STATEMENT OF WILLIAM E. DOUGLAS

Mr. Chairman and members of the committee, I am happy to have this opportunity to present the FY 1984 appropriation request of the Bureau of Government Financial Operations. This request reflects every effort to work toward the accomplishment of Bureau goals with the most technologically advanced operating systems, while reducing staff, increasing productivity, and ultimately saving the Government hundreds of millions of dollars.

The Bureau is proud of its mission, "to promote the financial integrity of the United States Government through sound money management on behalf of the public." Through the management of the collection of over $600 billion in taxes and other Government receipts, the oversight of sound cash management practices for all Federal funds, the disbursement and reconciliation of approximately 700 million Government payments annually, and the central accounting for the Government, we provide a wide range of vital services which impact the financial life of a majority of American citizens. Because many of our present systems are inadequate or obsolete, it has increasingly become necessary to examine our present and future responsibilities in light of the rapid economic, social, and technological changes occurring in our country and in the financial world with which we interact.

With the inauguration of the Bureau's formal planning process during FY 1982, a foundation has been constructed for the implementation of major integrated improvement projects throughout the Bureau. These projects are aimed at the improvement of Bureau operations and address both short-term operational needs and long-term functional improvements. The successful completion of these projects will assure that the Bureau will be able to provide the services required at a high level of efficiency and without the risk of a major breakdown.

Savings, reallocations, non-recurring expenditures, and productivity increases have provided the Bureau with the ability to continue operations and make capital investments in FY 1984 while requesting an appropriation of $242,995,000 and 2,493 average positions, a decrease of $951,000 and 41 positions from the FY 1983 level. This decrease is in addition to a reduction of $4,054,000 and 34 average positions from the Congressional allowance because of proposed transfers to other Treasury accounts for pay and the transfer of the Audit function to the Office of the Secretary. We anticipate that Government-wide savings, which will be realized by 1985 as a result of our investment in modernization, will exceed the entire annual operating cost of the Bureau.

There are four fundamental areas of Bureau operations which make up the functional allocation of our appropriation request. These areas, which I will now discuss, are: Banking and Cash Management, General Financial Services, Disbursement and Claims, and Governmentwide Accounting.

BANKING AND CASH MANAGEMENT

Banking and Cash Management, in terms of financial resource requirements is the second largest Bureau activity, but first in generating savings to the Government. FY 1984 funds requested are $51,391,000 or 21% of the Bureau's total appropriation.

Of this amount, $9.9 million is requested for the Cash Management segment, which is involved in the development, marketing, implementation, and maintenance of efficient cash management systems for all Federal funds. The return on investment in this area has been substantial (over one half billion dollars in FY 1982) and is reflected in interest savings to the Government as a whole. Of the Cash Management initiatives, the high priority Direct Deposit Marketing Program specifically benefits payment recipients as well as the Bureau. Direct savings are realized both through reduced postage costs and a decrease in the number of check claims and inquiries. Renewal of our current contract with the Advertising Council will allow the continuation of our ongoing strategic marketing campaign, which is aimed at increasing the use of electronic funds transfer. The estimated total number of payments has increased by 1.5% from the FY 1983 level, while the number of electronic funds transfer payments has shown an impressive 9% growth.

The Treasury Financial Communication System Expansion Project is designed to enlarge the current operational capabilities of this proven cash management tool. This system, a link to the Federal Reserve Communications System for the electronic funds transfer of payments and collections ($200 billion in 1982), greatly increases the availability of funds to the Treasury and will return $133 million in interest savings in FY 1984.

We also have the responsibility for regulating and operating the Treasury General Accounts through which over $100 billion flow annually The systems enhancements and controls to be realized through this modernization project will insure that deposits made are credited to the Treasury's use on a timely basis. Potential savings are in the $10 million to $20 million range annually. This project is a small segment of the Bureau's overall analysis and upgrade of the collection process.

A Collections Mechanism Project, which integrates many of the Bureau's initiatives, is the major study encompassing all collections systems. It will examine present and future requirements in order to identify the direction in which we must proceed to keep pace with cash management techniques employed by private sector organizations. Extensive coordination is required with the financial community and other Federal agencies in order to analyze current capabilities and future needs.

Prompt Bill Payment, the final initiative in this area, is directed at the establishment of an ongoing system for centralized monitoring of Federal agency bill payment practices. Its goal is to see that procedures are implemented for the payment of all bills on a timely and cost effective basis. Beginning October 1, 1983, agencies will be required to use the Treasury Financial Communication System for making Treasury disbursed vendor payments in excess of $25,000. Our target is to have 75% of the $50 billion in payments converted to electronic funds transfer by 1984, thus assuring timely (neither late nor early) payments.

Modern technology now permits the development of a unified, comprehensive approach to Governmentwide asset management to supercede our function oriented approach of the past. We are proud of our cash management record of over $700 million in FY 1984 interest savings, and are building for a better future.

Federal Reserve Bank Operations requires approximately $41 million in FY 1984. It provides reimbursement to the Federal Reserve Banks for performing numerous services which are vital to the Bureau's payment and collection systems. For example, they provide automated clearing house services for direct deposit payments. In addition, information on paid checks returning through the banking system is microfilmed while the hard copy checks are prepared and packaged for shipment to the Federal Records Centers.

Under the Treasury Tax and Loan Investment Program, 14,000 commercial depositaries receive fee payments for the processing of Federal Tax Deposit forms and Treasury in turn earns interest on the deposits held in these accounts. This program has been extremely successful with interest earned, $1.3 billion in FY 1982, far exceeding the fixed fee payments made in support of this service.

The Bureau continues its commitment to fairly and equitably provide reimbursement to the Federal Reserve Banks and commercial depositaries for all services performed. In so doing, we hope to maintain the excellent working relationship which has been firmly established with the financial community.

GENERAL FINANCIAL SERVICES

The General Financial Services activity requires $1,872,000 and 52 average positions in FY 1984 to provide many varied essential Government services. Among these services are the payment of foreign and domestic claims; accounting for and management of the Social Security, Unemployment, Highway and other Government Trust Funds; accounting, billing and collecting for lend-lease transfers, surplus property sales, and co-production agreements such as NATO-AWACS; administration of the Government Losses in Shipment Act and the Presidential Election Campaign Fund; liquidation of the Postal Savings System; and maintaining other revolving funds and loan accounts (over 100 accounts with $282 billion in outlays and $256 billion in receipts are maintained by the Bureau).

The workload of the General Financial Services area continues to increase, although the resource requirements have remained stable. We continue to keep pace with the additional demands placed on this area through increases in productivity and operational efficiencies involving the delivery of all these vital services.

DISBURSEMENT AND CLAIMS

The largest segment of the Bureau's operations is the Disbursement and Claims activity. Its FY 1984 funding request of $159,920,000 is 66% of the Bureau's total requirement. Average positions of 1,535, reflecting a reduction of 25 from FY 1983, represent 60% of the total average positions for the Bureau.

The cost of postage, the largest portion of this request, has shown a significant reduction from the FY 1983 level due in part to the transfer of the mailing of Federal Tax Deposit forms to the Internal Revenue Service beginning in December 1983. Other efforts to economize through our Disbursing Centers' presort operations and the Direct Deposit Marketing Campaign have combined to keep the unit cost of payments from rising. FY 1982 presort savings were $14 million. Direct Deposit savings were 20 cents per 175 million payments, a total savings of $35 million. The advantage of shifting to electronic funds transfer is indicated by the fact that every penny in postage increases equates to $5 million in additional costs to the Bureau.

There are three major projects which are now underway that are directly related to the issuance of payments. The first, upgrading of disbursing center computer systems, is aimed at the replacement of obsolete equipment with modern hardware and standardized software systems having increased capacity, efficiency and reliability. The completion of this project in 1984 will ensure that the ever present threat of systems failure is considerably minimized. This program includes the installation of hardware, software redesign, system conversion, monitoring, training, and site modifications. The second program relates to the check stock itself. Although our objective is to stay abreast of changes in the financial world and convert the majority of payments to electronic fund transfer, checks will be with us for the forseeable future. The printer-punch equipment presently used to produce Government card checks is obsolete and will not be maintained by the manufacturer beyond FY 1985. With the procurement of modern printing equipment, the Bureau will be able to convert to less expensive paper checks and replace the outdated punch card operation with modern printing technology. The end product of these conversions will be more reliable and standardized methods of issuing checks with increased security over the entire check issue/payment process.

The third project, Payment Mechanism, is an ongoing project. The Bureau is engaged in a major study to plan and design governmentwide payments mechanisms that will be used through the end of the century. The importance of this study dictates that future technologies and trends in payment forms be throughly investigated and then incorporated into the design. To assist in this assessment, a panel of government and industry experts has been convened by the contractor engaged by the Bureau to provide technical and management assistance to the study. The panel, which is currently in the process of carrying out its function, includes a representative from the Office of Technological Assessment.

In the Check Claims area, the Interest Billing project is designed to charge interest to commercial banks which have improperly cashed Government checks, when they fail to refund the amount to Treasury within 60 days. The implementation of this procedure has resulted in a 100% increase or $26 million in collections and provides an incentive for prompt repayment of future reclamations. I will supply for the record information on ongoing projects which have improved the Check Claims program.

GOVERNMENTWIDE ACCOUNTING

The Governmentwide Accounting activity comprises 12.3% or $29,812,000 of the Bureau's FY 1984 appropriation request. Its major responsibilities include maintenance of the central accounting and financial reporting systems of the Federal Government; disclosure of the fiscal assets and liabilities of the U.S. Treasury; and the publication of periodic financial reports such as the Combined Statement and the Monthly Treasury Statement. In this capacity, it plays a significant role in the intricate day to day operation of the nation's financial network. It is, therefore, of utmost importance that the systems on which it must rely are the most technologically advanced available.

Several new initiatives are directed toward major improvements in these accounting systems. Of highest priority is redesign of the overburdened and antiquated check payment and reconciliation system. This system, designed in the 1950's, must today handle the reconciliation of approximately 650 million checks and 1 million stop payments annually, and handle the processing of over 2.5 million daily transactions. These volumes have doubled since the system was installed. The check payment and reconciliation system has been patched and modified to the maximum extent feasible and it can no longer keep pace with demands. A major failure would result in immense disruption and financial loss from which full recovery would be extremely difficult if not impossible. The new system, while capable of supporting all the current functions, will be extensively automated and able to provide on-line data access. There will be major improvements in accountability, control, integrity, claims processing, and response time, as well as the ability needed to respond to future demands such as limited negotiability of checks and return of funds to program agencies for outstanding checks.

A closely related initiative is the Governmentwide Accounting Project designed to study and evaluate technical approaches to improvements in all aspects of governmentwide accounting functions. Inefficiencies in the current system include extensive manual processes, insufficient internal controls and audit trails, and the production of financial information which is often untimely and/or incomplete. The completion of this project will result in a modern, highly efficient, secure, and integrated governmentwide accounting system.

The third initiative, Funds Control, will provide improved control over the reporting of cash balances available to Treasury through telecommunications links. This system will furnish the timely information that is required to accurately determine Treasury Tax and Loan account balances and other financial data which are used by the Fiscal Assistant Secretary for daily borrowing and investment decisions.

ADMINISTRATION

The administrative cost of operating the Bureau is allocated among the four activities based on the percentage of support services consumed. In FY 1984, the additional administrative cost of moving the Bureau to a central facility in the Washington area has been allocated to the four activities based on the number of employees. Relocation and consolidation of BGFO headquarters staff, presently housed in seven locations throughout Washington, DC and Virginia, will facilitate an improvement in operations and the maximum utilization of human resources. If the Bureau is to continue to move ahead in the many areas already described, the operational inefficiencies inherent in the present arrangement must be remedied. A prospectus for a consolidated building is with GSA and is anticipated to be presented to Congress shortly.

SUMMARY

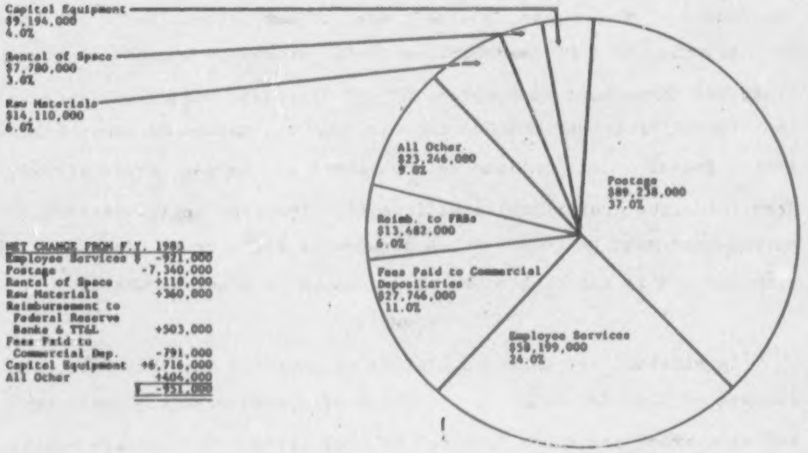
In closing, Mr. Chairman, let me reemphasize the fact that this request of $242,995,000 is a reduction of approximately $1 million and 41 average positions from our FY 1983 level. Yes, we are asking for funds for some new projects, yet we are able to adhere to the Administration's policy of restricting the growth in federal spending by requesting resources in FY 1984 which are less than our 1983 resource levels. This is possible largely because many of our make-shift operating systems are more labor intensive and costly to operate and maintain than the improved systems which will replace them.

The initiatives which I have just described to you are the result of carefully laid plans which are the foundation of our future. We must work now to acquire the modern tools needed to keep pace with the constantly increasing demands placed on this Bureau.

Charts have been prepared which I would like to submit in support of this request. I appreciate your time and will be happy to answer any questions.

1984 APPROPRIATION REQUEST...$242,995,000

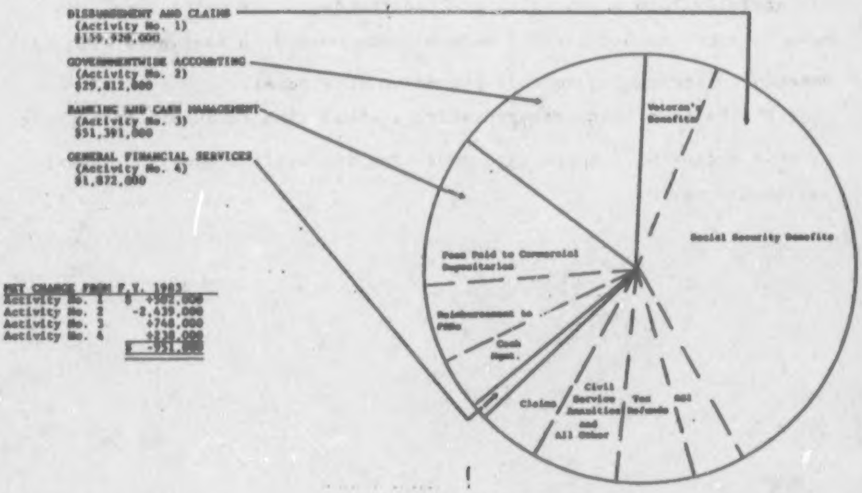
RESOURCES



NET CHANGE FROM F.Y. 1983	
Employee Services	$ -921,000
Postage	-7,340,000
Rental of Space	+118,000
Raw Materials	+360,000
Reimbursement to Federal Reserve Banks & TT&L	+503,000
Fees Paid to Commercial Dep.	-791,000
Capital Equipment	+6,716,000
All Other	+406,000
	$ -951,000

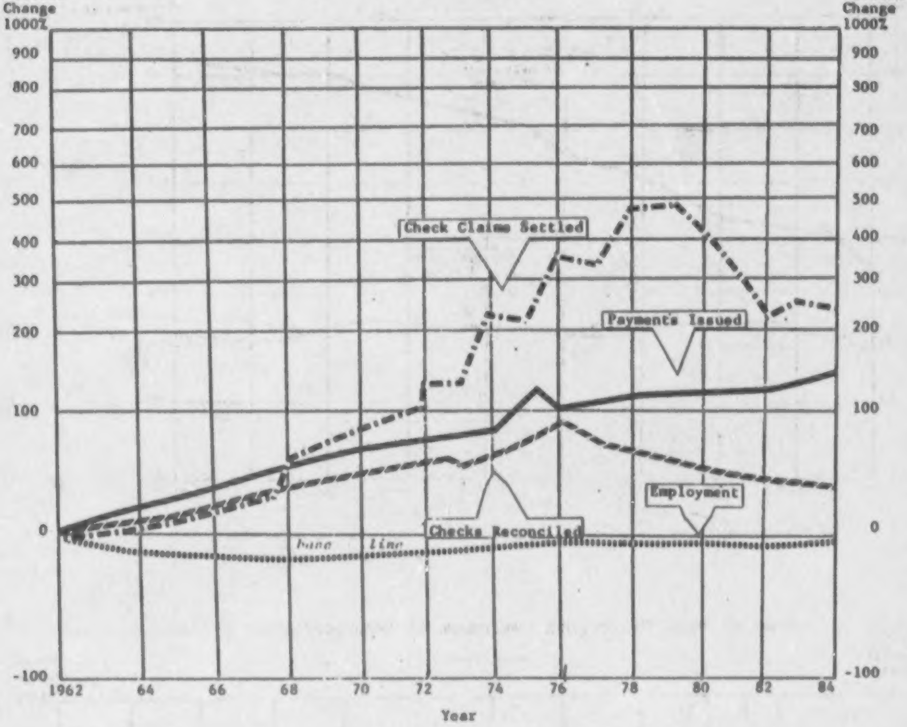
1984 APPROPRIATION REQUEST ...$242,995,000

PRODUCTS AND SERVICES

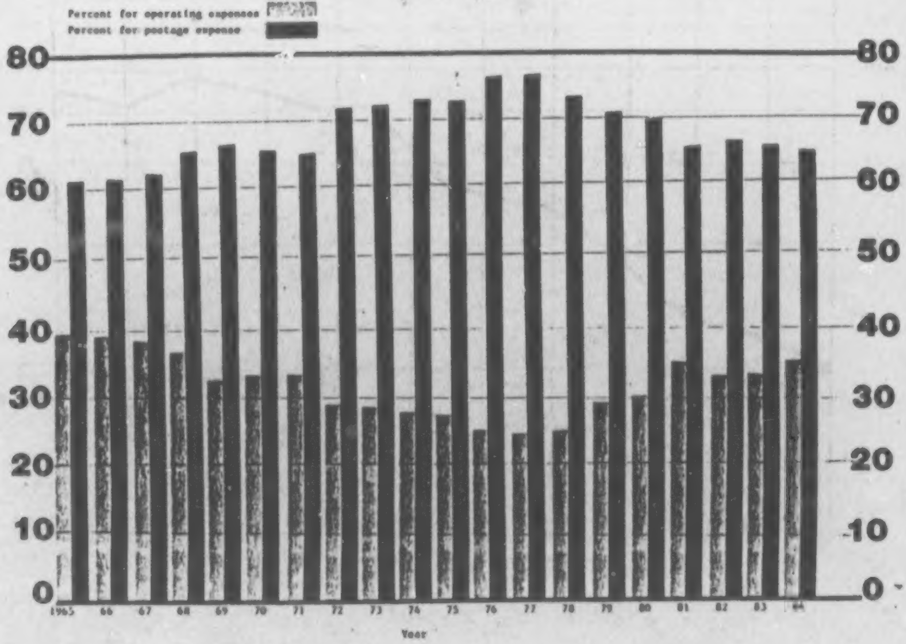


NET CHANGE FROM F.Y. 1983	
Activity No. 1	$ +502,000
Activity No. 2	-2,439,000
Activity No. 3	+748,000
Activity No. 4	+238,000
	$ -951,000

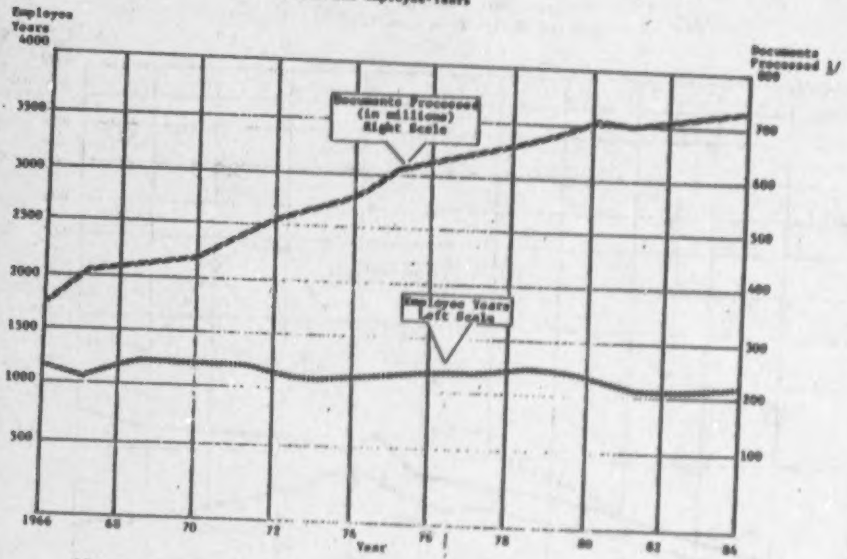
Major Work Outputs
Percent of Change from Base Year



PAYMENT OPERATIONS
RESOURCE APPLICATION

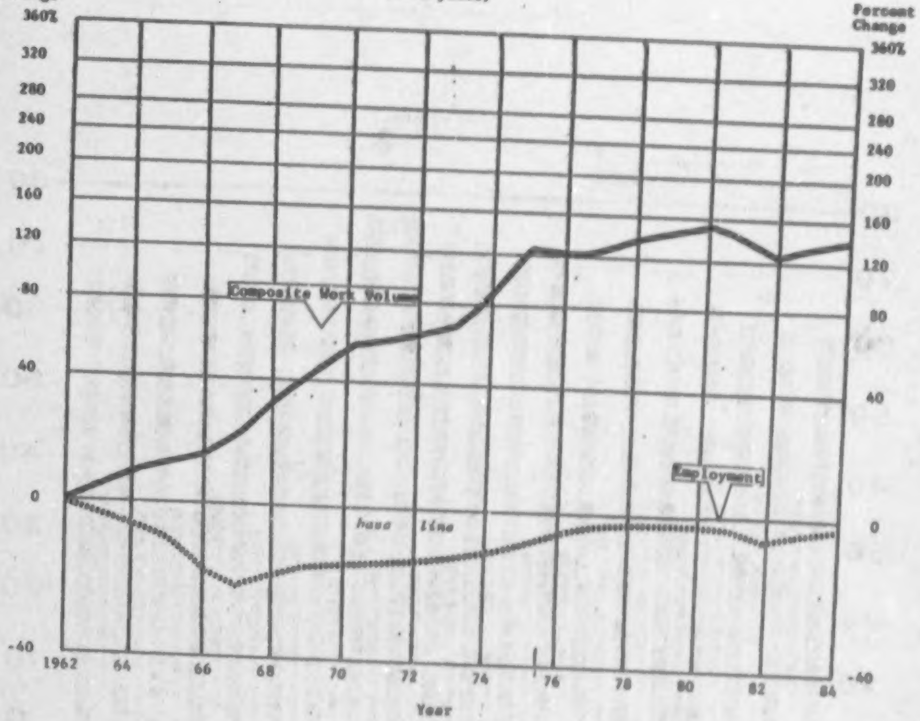


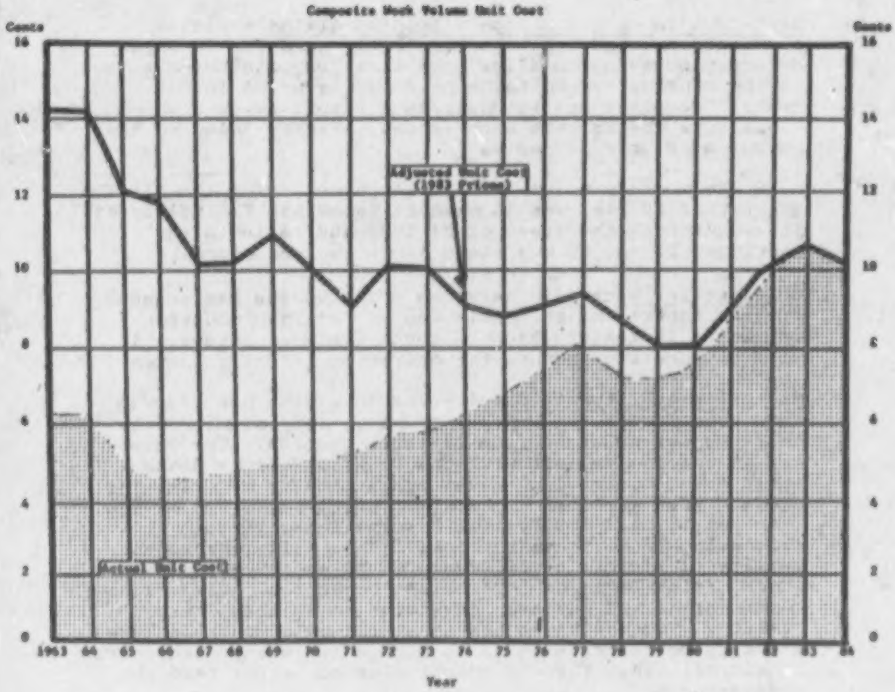
PAYMENT OPERATIONS
Workload and Employee-Years



1/ Documents processed are payments issued in the form of checks, bonds, or EFT

PERCENT OF CHANGE IN COMPOSITE WORK VOLUME AND EMPLOYMENT FROM BASE YEAR
(Work-years)





Division of Check Claims

This provides a concise summary of major issues and activities relative to the Check Claims program.

Operational Improvements

-- Interest charges on bank reclamations through the Interest Billing System - The Interest Billing System is a contractor support service which allows commercial banks 60 days to remit payment to Treasury on bank forgery reclamations. After 60 days, interest accrues. Billing statement notices are issued every 30 days reflecting outstanding refunds and accrued interest. Interest Billing will work in conjunction with the administrative off-set program (Set-off program) to increase recovery of delinquent reclamations.

-- Bank reclamation set-offs - The Bureau is working toward establishing a system to improve recovery of delinquent bank forgery refunds through administrative offset. Under the administrative offset procedure, overdue refunds would be offset from the amounts payable to the banks from other Government agencies. Upon publication of appropriate regulations required under the Debt Collection Act, the offset procedures will be implemented.

Improved follow-up procedural improvements and regulation changes have improved reclamation collections. The monthly rate of reclamation credits for the first two months of FY 1983 was $4 million. The level of credits continues to be substantially higher than the 1981 monthly rate of $2.5 million. The reclamation credits from banking institutions in FY 1982 was $53 million, double the 1981 level.

-- Slow-down in magnetic tape submitted claims - Claims submitted on magnetic tapes are being held for 10 days before processing to allow more time for original checks in the banking system to be paid and recorded in our central computer operations. As a result fewer substitute checks have been issued, thereby reducing the number of double payments.

The monthly volume of double payments for the first quarter of FY 1983 was 35 percent below the FY 1981 level. This continues the trend of FY 1982 and reflects the continued impact of the claim slow-down procedure.

-- Contract for microfilm services - The Bureau has engaged a private contractor to handle the microfilm production operation in the Division of Check Claims. However, it will be some time before the operation is fully current.

-- Microfilm-quality standards - For some time now efforts have been focused on improving the quality of microfilm check copies obtained from Treasury records. The Bureau has an ongoing project with the Federal Reserve Banks aimed toward improving mutual operations in a variety of areas. Much stricter microfilm quality standards have been established for Federal Reserve Banks in the processing of Government checks. This will improve the quality of microfilm copies needed by agencies and the Check Claims Division for collection action. Also, a new Government check has been developed to further improve quality. The new check has a natural color back and the printing on the reverse is in orange ink which disappears in microfilming, thereby enabling us to better read the endorsements.

STATEMENTS OF DONNA POPE

EXPANSION AND IMPROVEMENT PROGRAM

THE FISCAL YEAR 1984 REQUEST OF $3.070 MILLION REPRESENTS THE FINAL FUNDING REQUIREMENTS OF A MULTI-YEAR $18 MILLION PROJECT. WE HAVE AWARDED, THROUGH THE GENERAL SERVICES ADMINISTRATION, AN ARCHITECT-ENGINEER DESIGN CONTRACT FOR PLANNED IMPROVEMENTS TO THE DENVER MINT. THESE IMPROVEMENTS WILL PROVIDE SECURE TRUCK ROADWAY AND DOCK FACILITIES; WEATHERPROOF STORAGE FOR BOTH COINAGE MATERIALS AND COINS READY FOR SHIPMENT (REPLACING THE THREE (3) TEMPORARY BUILDINGS PRESENTLY USED); MATERIALS HANDLING SYSTEMS; AND EXPANDED CAPABILITY FOR COIN PRODUCTION TO BE GAINED BY THE UPGRADING AND REARRANGING COIN PRODUCTION EQUIPMENT INTO A MORE EFFICIENT CONFIGURATION. PURCHASES OF ADDITIONAL COIN PRODUCTION EQUIPMENT FOR THE PHILADELPHIA MINT WILL PROVIDE INCREASED COIN PRODUCTION CAPABILITIES FOR THE FUTURE.

Upon completion of this program by 1985, the Mint will have coining capacity of 22.5 billion coins per year. This capacity is based on 3 eight hour shifts, 5 days per week.

This completes my prepared remarks and I will be pleased to answer any questions you may have.

Mr. Chairman and members of the Committee, last year was my first opportunity to testify before your Committee and I have been looking forward to the experience again this year. I am pleased to present for your consideration, the Fiscal Year 1984 Appropriation request for operations of the Bureau of the Mint.

1984 BUDGET REQUEST

For Fiscal Year 1984 we are requesting an appropriation of $49.558 million and 1151 average positions for Salaries and Expenses. This is a net decrease of 104 average positions and a net increase of $2 million from the authorized total of $47.558 million under the current Fiscal Year 1983 Continuing Resolution. This increase in funding will allow the Mint to increase coin production from 17.6 to 21 billion coins. This production will satisfy the Federal Reserve Banks' projected requirements of 20.950 billion coins and maintain inventories at levels necessary to insure adequate coin supplies for the nation's economy.

This increase is composed of the following major changes:

- Program increase of $3.415 million and 60 average positions providing an additional 3.4 billion coins and increased funding of $878 thousand for the replacement of wornout and obsolete production related equipment;

- Program increase of $300 thousand providing physical improvements to the Fort Knox Bullion Depository;
- An increase of $2.476 million for pay raises already granted in Fiscal Year 1983;
- An increase of $2.178 million to offset inflation for ultilities, production related supplies, commercial and government telecommunications costs, rental costs, and the costs for services received from other government agencies and commercial sources;
- Decreases of $7.247 million and 164 average positions due to the extended shut-down of the in-house coinage strip facility at Philadlephia and the closure of the New York Assay Office.

Revenues resulting from Fiscal Year 1984 operations of the Bureau of the Mint are estimated to be approximately $1.064 billion consisting of seigniorage of $647 million and $417 million from the sale of gold medallions and miscellaneous numismatic programs.

FISCAL YEARS 1982 - 1983 HIGHLIGHTS

Substantial changes have occurred in the operations of the Mint. As a result of budgetary constraints, action was taken, beginning in March 1982, to close the New York Assay Office. The implementation of a previous decision to relocate Gold Bullion to the West Point Bullion Depository was accelerated. There were one hundred forty two (142) truckloads consisting of over 57.7 million fine troy ounces of gold bullion transferred from the New York Assay Office to the United States Bullion Depository at West Point. In addition, 17.6 million fine troy ounces of silver were also

TRANSFERRED BETWEEN THESE FACILITIES. THE REFINING EQUIPMENT WAS DISMANTLED; BULLION RECLAMATION ACTIVITIES WERE CONDUCTED; AND, EQUIPMENT DISPOSAL WAS COMPLETED. ON DECEMBER 30, 1982, THE NEW YORK ASSAY OFFICE FACILITY AND LAND WERE TRANSFERRED TO THE GENERAL SERVICES ADMINISTRATION.

IN ADDITION TO CLOSING THE NEW YORK ASSAY OFFICE, ACTION WAS TAKEN TO MOTHBALL THE COINAGE STRIP OPERATION AT THE PHILADELPHIA MINT. BY TEMPORARILY CLOSING THE STRIP OPERATION, WE WERE ABLE TO TRANSFER THOSE EMPLOYEES TO COIN PRODUCTION, THEREBY ALLOWING US TO REDUCE OVERTIME EXPENDITURES.

IN AN EFFORT TO EXPLORE NEW METHODS OF INCREASING COIN PRODUCTION AT MINIMAL COST, THE MINT IS CURRENTLY CONDUCTING AN EXPERIMENT IN THE OPERATION OF ITS FACILITIES ON A SEVEN DAY PER WEEK BASIS USING PART-TIME TEMPORARY EMPLOYEES. THIS EXPERIMENT IS BEING CONDUCTED AT THE DENVER AND WEST POINT FACILITIES.

I HAVE RECENTLY REORGANIZED THE BUREAU TO STRENGTHEN THE MANAGEMENT TEAM IN THE WASHINGTON OFFICE. WE NOW HAVE A FULL-TIME DEPUTY DIRECTOR AND A DIVISION OF RESPONSIBILITY BETWEEN TWO ASSOCIATE DIRECTORS, ONE FOR OPERATIONS AND ONE FOR POLICY AND MANAGEMENT.

THIS CHANGE WILL ALLOW OUR MANAGERS TO SPEND MORE TIME IN THEIR SPECIALIZED AREAS AND SHOULD RESULT IN SUBSTANTIALLY IMPROVED COORDINATION OF BUREAU-WIDE PROGRAMS.

COIN REQUIREMENTS

THE SUPPLY OF ONE-CENT COINS FOR THE FIRST TIME SINCE 1980 IS SUFFICIENT TO MEET THE NEEDS OF COMMERCE. ALL FEDERAL RESERVE BANKS AND BRANCHES ARE CURRENTLY FILLING REQUESTS OF COMMERICAL BANKS IN FULL.

THE MAJOR CONTRIBUTING FACTORS IN NORMALIZING THE DEMAND FOR ONE-CENT COINS WERE THE SUCCESSFUL CONVERSION TO

THE COPPER PLATED ZINC ALLOY, DEPRESSED COPPER PRICES, AND INCREASED ONE-CENT COIN PRODUCTION. WITH A LOWER COPPER CONTENT AND INTRINSIC VALUE, THE ONE-CENT COIN SHOULD NOT BE A SPECULATIVE COMMODITY IN THE FUTURE. THIS WILL AID OUR PLANNING AND HELP STABILIZE PRODUCTION RATES. OF EQUAL SIGNIFICANCE IS THE ESTIMATED ANNUAL SAVINGS OF APPROXIMATELY $31 MILLION IN METAL COSTS.

FOR FISCAL YEAR 1984 WE HAVE BUDGETED PRODUCTION OF 21 BILLION COINS TO MEET EXPECTED DEMAND AND MAINTAIN INVENTORY BALANCES AT LEVELS REQUIRED TO INSURE ADEQUATE COIN SUPPLIES FOR THE NATION'S ECONOMY.

COIN PRODUCTION

THE MINT HAS SIX (6) FIELD OFFICES OF WHICH FOUR (4) ARE ENGAGED IN THE COIN MANUFACTURING PROCESS. THEY ARE: THE PHILADELPHIA AND DENVER MINTS, THE SAN FRANCISCO ASSAY OFFICE AND THE WEST POINT BULLION DEPOSITORY. A VARYING RANGE OF COIN RELATED ACTIVITIES ARE CONDUCTED AT EACH FIELD OFFICE. THE PHILADELPHIA MINT MANUFACTURES ALL DIES AND PRODUCES COINS OF ALL DENOMINATIONS. THE DENVER MINT PRODUCES COINS OF ALL DENOMINATIONS AND MANUFACTURES AND PACKAGES THE UNCIRCULATED GEORGE WASHINGTON COMMEMORATIVE HALF-DOLLAR. THE SAN FRANCISCO ASSAY OFFICE PRODUCES ONE-CENT COINS AND MANUFACTURES AND PACKAGES THE PROOF GEORGE WASHINGTON COMMEMORATIVE HALF-DOLLAR, OLYMPIC PROOF COINS, AND THE STANDARD PROOF SETS. WEST POINT PRODUCES ONE-CENT COINS, MANUFACTURES AND PACKAGES THE 1/2 OUNCE AND 1 OUNCE GOLD MEDALLIONS AND WILL PRODUCE THE 1984 OLYMPIC GOLD COIN.

DEPOSIT ACTIVITY

THE DEPOSIT ACTIVITY INCLUDES THE COST OF PREPARING, STORING, AND LOADING COINS FOR SHIPMENT FROM THE MINT; AND THE SHIPPING, STORING AND VERIFYING OF GOLD AND SILVER

BULLION. THE MAJOR ELEMENT OF COST IN THIS ACTIVITY INVOLVES THE HANDLING, STORAGE AND SUBSEQUENT RELEASE OF NEW COINS TO THE FEDERAL RESERVE BANKS.

PROTECTION

THE SECURITY STAFF PROTECTS ALL MINT EMPLOYEES, FACILITIES, AND ASSETS INCLUDING GOLD AND SILVER BULLION, AND COINS IN THE CUSTODY OF THE MINT. MINT POLICE ALSO PROTECT COINS AND BULLION IN TRANSIT WHEN NECESSARY. IN FISCAL YEAR 1984, THE SECURITY SYSTEMS PROTECTING THE FORT KNOX BULLION DEPOSITORY AND THE WEST POINT BULLION DEPOSITORY WILL BE IMPROVED, FACILITY ENTRY AND EXIT CONTROL PROCEDURES WILL BE STANDARDIZED AT ALL PRODUCTION AND STORAGE FACILITIES, AND EMERGENCY CONTINGENCY PLANS WILL BE DEVELOPED AND TESTED.

PERSONNEL

OUR EMPLOYMENT LEVEL FOR FISCAL YEAR 1984 WILL BE 2,109 (FTE) WORK YEARS (1,151 FROM APPROPRIATED FUNDS AND 958 FROM NUMISMATIC AND OTHER REIMBURSABLE ACTIVITIES). THIS IS 104 FEWER APPROPRIATED WORK YEARS THAN WAS AUTHORIZED IN FISCAL YEAR 1983 AND RESULTS FROM CLOSURE OF THE NEW YORK ASSAY OFFICE AND THE MOTHBALLING OF IN-HOUSE STRIP PRODUCTION.

INTERNAL AUDIT

ON JUNE 7, 1982, THE SECRETARY OF THE TREASURY TRANSFERRED TO THE OFFICE OF INSPECTOR GENERAL THE MINT'S INTERNAL AUDIT FUNCTION. THE TRANSFER BECAME EFFECTIVE ON OCTOBER 1, 1982.

DURING FISCAL YEAR 1982, THE MAJOR RESPONSIBILITIES OF THE INTERNAL AUDIT STAFF WERE ACCOUNTING FOR THE TRANSFER OF GOLD FROM THE NEW YORK ASSAY OFFICE TO THE WEST POINT BULLION DEPOSITORY AND CONDUCTING ANNUAL SETTLEMENTS.

CONTINUING AUDITS OF GOLD

A PROGRAM FOR THE CONTINUING AUDIT OF UNITED STATES OWNED GOLD COMMENCED IN 1974 WHEN THE TREASURY DEPARTMENT with the participation of the United States General Accounting Office, conducted an audit at the Fort Knox Bullion Depository. Continuing audits are performed at each Mint depository with the objective of auditing about ten percent annually until the entire stock has been verified.

Through the end of Fiscal Year 1982, over eighty-six percent of United States owned-gold bullion in permanent storage at Mint depositories has been audited and found to agree with the records. This represented 229 million of the 264 million fine troy ounces of gold bullion owned by the United States as of September 30, 1982.

These audits were performed jointly by the Bureau of the Mint and the Bureau of Government Financial Operations.

EQUAL EMPLOYMENT OPPORTUNITY

The Bureau-wide Special Emphasis Program has made sizeable gains regarding the implementation of EEO/Affirmative Goals. As of December 1982, our totals in these programs are as follows: Cooperative Education (5), Federal Junior Fellowship (3), Handicap (22), Stay-in-School (15), Veterans Readjustment Appointment (32), Career Development (1) and Apprenticeship (1). Our Bureau-wide employment statistics are: minority men 41%, minority women 13% and non-minority women 6%.

We belong to the Adopt-A-School community based program, which brings together resources from private and public community organizations and the Washington, D. C. Public Schools. The primary thrust of this program is to inform youths of the multitude of careers and job opportunities available after secondary or post-secondary education.

NUMISMATIC AND REIMBURSABLE PROGRAMS

Our numismatic and medal programs for Fiscal Year 1984 will include: Proof Coins Sets, George Washington Commemorative Half-Dollars, Olympic Commemorative Coins, Bicentennial Proof and Uncirculated Coin Sets, and List and Congressionally Authorized Medals. All production and sale operations related to these activities are financed from reimbursable funds. These programs will result in estimated General Fund Revenues of $16.6 million.

Recent domestic coin production workloads have resulted in diminished coin production for Foreign Governments.

PROOF COIN SETS

The Mint received orders for approximately 3.8 million proof coin sets during calendar year 1982. The 5-coin proof set containing the cent through the half dollar are produced only at the San Francisco Assay Office and bear the "S" Mint mark. All aspects of the production from dies to blanks, to the striking and handling of proof coins are specially designed to provide the ultimate in quality.

GEORGE WASHINGTON COMMEMORATIVE HALF-DOLLAR

The George Washington Commemorative Coin Act authorized the Treasury to issue up to 10 million 90% silver commemorative half-dollars to honor the 250th Anniversary of George Washington's birth. This marks the first time since 1954 that the Mint has produced a 90% silver commemorative coin.

These coins are produced and distributed by the Bureau of the Mint, and are available in both proof and uncirculated condition. These coins are dated 1982 and will be produced during calendar year 1982 and 1983.

As of February 28, 1983, approximately 5.4 million of the coins were sold and additional sales efforts are taking place.

GOLD MEDALLIONS

A contract has been awarded to J. Aron & Company for the purchase, marketing and distribution of American Arts Gold Medallions. Beginning in the spring of 1983, medallions will be bought and sold in the same manner as the gold bullion coins which are distributed by other governments. The transactions will take place through precious metals dealers, banks, coin dealers, and stockbrokers. Distribution will be quicker and more convenient than the direct-mail system previously used. This method also complies with a recommendation by the U. S. Gold Commission to improve the distribution of medallions.

We have over 670,000 ounces of unsold 1980 (Grant Wood - Marian Anderson) and 1981 (Mark Twain - Willa Cather) medallions in inventory, plus 600,000 ounces of 1982 medallions (Louis Armstrong - Frank Lloyd Wright) which will be offered for sale shortly. We have improved the appearance of the 1982 and subsequent medallions by adding a reeded edge and markings of the gold content and "United States of America" to indicate their official issuance under PL95-630.

OLYMPIC COINAGE

Public Law 97-220 dated July 22, 1982, provides for the striking of up to 50 million one dollar silver coins dated 1983 and 1984 and up to 2 million ten dollar gold coins dated 1984 to assist the olympic effort and the 1984 Los Angeles Olympic Games. The Bureau of the Mint is producing and selling the coins with surcharges provided in the legislation of $10 per silver coin and $50 per gold coin with proceeds being distributed 50/50 to the United States Olympic Committee and the Los Angeles Olympic Organizing Committee.

THE BUREAU OF THE MINT HAS CONTRACTED WITH A PRIVATE MARKETING CONSULTANT TO DEVELOP AN OVERALL MARKETING EFFORT. IN ADDITION, PROPOSALS HAVE BEEN REQUESTED FROM FIRMS TO HANDLE INTERNATIONAL MARKETING OF THE COINS.

AS OF FEBRUARY 28, 1983, APPROXIMATELY 842,000 COINS HAD BEEN SOLD WITH SURCHARGES OF $14.493 MILLION WHICH HAVE BEEN PAID TO THE OLYMPIC COMMITTEES.

THIS COMPLETES MY PREPARED REMARKS AND I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

STATEMENT OF W. M. GREGG

Mr. Chairman and Members of the Committee, I appreciate this opportunity to discuss with you our 1984 appropriation request for "Administering the Public Debt." This appropriation provides funds for the Bureau of the Public Debt and the U.S. Savings Bonds Division. The latter is a separate organization responsible for promoting the sale of savings bonds and its requirements will be discussed later.

The Bureau of the Public Debt is a service organization with responsibility for the administrative functions required for the conduct of Treasury's debt financing activities and for accounting for the public debt. The Bureau maintains an office in Parkersburg, West Virginia, as well as the headquarters office in Washington, D.C.

Workload for the Bureau is generated by Treasury financing necessary to fund Federal programs and operations and to refund debt outstanding. The volume of work is dictated by the size,frequency and extent of public participation in Treasury offerings. The Bureau must issue, service and redeem the securities which are the tangible results of those offerings.

As our fiscal agents, the Federal Reserve Banks conduct public debt transactions under our direction. In addition, most banks and other financial institutions act as issuing and paying agents for the sale and redemption of savings bonds.

Only about 34 percent of the appropriation is allocated to Bureau operations. Some 8 percent is allocated to the Savings Bonds Division, and the balance is required to reimburse the Federal Reserve Banks, issuing and paying agents, and the Postal Service for contractual services.

FY 1984 APPROPRIATION REQUEST

We are requesting an appropriation of $205,605,000 to carry out the responsibilities of the Bureau of the Public Debt and the Savings Bonds Division in fiscal year 1984. The 1984 request is $5,671,000 over the amount available for FY 1983. Program increases amount to $6,767,000, and other increases necessary to maintain current levels total $4,676,000. These increases are offset by reductions of $5,772,000 from savings and non-recurring costs. Our request reflects absorption of the full costs of the Fiscal Year 1983 pay increases, Medicare, and Federal Employee health benefit increases and also reflects the transfer of $1,056,000 and 28 average positions to the Office of the Secretary for audit and internal investigation activities.

SAVINGS BOND PROGRAM

On October 27, 1982, the President introduced to the public the market-based interest formula for savings bonds. Series EE savings bonds purchased on or after November 1, 1982 and held at least five years will earn 85 percent of the average yield on outstanding five-year Treasury marketable securities. In addition there is a minimum guaranteed yield of 7.5 percent so that bond owners will receive a competitive return regardless of market conditions. This new formula will help to restore savings bonds sales and strengthen the savings bond program. As a result savings bond sales are projected to increase 4.5 percent over the 1983 estimate, for a total of 81,200,000 sales. We also expect bonds to be held longer and anticipate that redemptions will decline by 10.7 percent, for a total of 127,000,000 redemptions in FY 1984. We have already begun to see some positive signs of a turnaround in the few months since the new rate structure was implemented.

Higher volumes of savings bond issues will require an increase of $776,000 for fees to reimburse financial institutions and others who issue savings bonds. Printing and shipping savings bond stock and mailing issued bonds will require a total increase of $596,000. A reduction of $5,168,000 is projected for paying agent fees based on fewer redemptions.

We plan to introduce a new technology to our savings bond processing in FY 1984 and are requesting $888,000 for the purchase of Optical Character Recognition/Magnetic Ink Character Recognition (OCR/MICR) equipment. This equipment will initially be used to improve processing of savings bond redemptions. This enhancement will reduce the Bureau's sensitivity to the workload fluctuations expected as the savings bond program becomes more active. Conversion to this system is expected to yield an annual savings of 25 to 30 work-years, as well as a net savings of over $1 million during the eight-year life of the system. We are also optimistic about the prospects of expanding this technology to the processing of savings bond issues in later years.

MARKETABLE SECURITIES

The budget request for processing marketable and special securities, including registered and book-entry accounts, assumes the level of activity will remain high in 1984. The Bureau auctioned $809 billion in marketable bills, bonds, and notes in FY 1982 to refund maturing securities and raise $143 billion in new cash. The total amount auctioned was an increase of $126 billion over FY 1981.

The high volume of small investor participation in both Treasury bills and Treasury note and bond issues continues. In FY 1984 we are projecting the establishment of 2,442,000 new Treasury bill accounts and 196,000 new registered note and bond accounts, representing increases of 5 percent and 6 percent, respectively. To handle these marketable workloads in FY 1984, we are requesting an additional $604,000 for postage, printing of securities and other support services.

While it is still in the early stages, you may wish to know that we have asked the Federal Reserve Banks to estimate the costs and time required to develop a Treasury book-entry system for notes and bonds, to be operated in the Federal Reserve Banks. If their proposal is accepted, we plan to move toward replacing definitive securities with book-entry securities for all new marketable Treasury issues. Our long-range plans include examining whether to expand the bond and note system to include book-entry Treasury bill accounts for individual investors.

FEDERAL RESERVE BANK REIMBURSEMENTS

Reimbursements to the Federal Reserve Banks, for the work they perform as fiscal agents of the Treasury, are projected to increase by $3.4 million in FY 1984. This increase reflects anticipated growth in marketable securities transactions, as well as personnel and other cost increases. In FY 1984 reimbursements to the Federal Reserve Banks will total $44,443,000. Since we only recently requested that the Federal Reserve Banks develop the book-entry system for notes and bonds, no funds are included for this purpose in this estimate.

CONCLUSION

Mr. Chairman, this concludes my prepared remarks. We will be glad to answer any questions you and the members of your committee may have.

STATEMENT OF STEVEN R. MEAD

Mr. Chairman and members of the Committee, it is a pleasure for me to be here today with my colleagues to present the 1984 appropriation request of the United States Savings Bonds Division. Bay Buchanan, Treasurer of the United States and National Director of the Savings Bonds Program, regrets she cannot join us.

Sales and holdings of U. S. Savings Bonds have declined during the last several years because of unfavorable economic conditions. The interest rates allowed under the law were not sufficient in comparison to other savings market instruments to stem the Savings Bonds cash drain from the Treasury. As you know, this cash drain had to be financed by more expensive Treasury borrowing. At the end of December, 1981 for example, the average Savings Bond interest rate was 7.134%, while the average for all Treasury Notes was 10.081%. Even in December, 1982 the average Savings Bond interest rate had risen to only 7.238%, while the average Treasury notes were 12.363%, despite being influenced by lower short-term rates during the year.

To remedy this situation, and to revitalize the Savings Bond program, the Treasury proposed legislation authorizing the Secretary of the Treasury, with the President's approval, to link the interest rate on Savings Bonds to market rates. Congress enacted this proposal as part of the Tax Equity and Fiscal Responsibility Act of 1982 and President Reagan approved its implementation on October 27, 1982. As a result, savers now are provided a variable, market-based interest rate on Savings Bonds which makes the bonds more competitive during periods of generally rising rates. They also are guaranteed a minimum rate, which gradually rises through the fifth year to a 7½% floor. Under the formula. Series EE Bonds purchased on or after November 1, 1982 and held 5 years or longer earn interest at a rate equal to 85% of the average market yield on 5-year Treasury securities during the holding period, or the guaranteed minimum rate of 7.5%, whichever is higher. Bonds purchased before November 1 and held for an additional five-year period are also eligible for the new rates. All other features of Savings Bonds - including the denominations, tax advantages, payroll savings plans - remain the same.

I am happy to report that this change has made Savings Bonds more attractive to savers as reflected by increased sales — and thereby preserves a valuable means of financing the Federal debt in a cost-effective manner. Equally important, it provides small savers wishing to continue their participation in the Savings Bond Program with a unique Federal security that earns a market-based rate of interest with an investment as small as $25.

Since October 1, 1982 savings bond sales have jumped by 20%, redemptions have declined by 29%, and the amount of Savings Bond debt outstanding has increased by $843 million to $68 billion at the end of January 1983. These early trends are very encouraging, and, we believe, indicate a critical turning point in this program.

To further improve sales, we are engaged in an aggressive effort to fully inform the public of the improved interest terms. Wide dissemination of this information is critical to reverse the widespread impression that Savings Bonds are non-competitive. With our product now truly competitive, our objective is to revitalize the Savings Bonds Program not by seeking additional resources, but by more efficient and innovative marketing of this much improved product.

FISCAL YEAR 1984 BUDGET REQUEST

Our fiscal year 1984 budget request totals $16,815,000, an increase of $1,881,000 above the Proposed Authorized Level for 1983. This increase consists of $500,000 for information and marketing activities associated with the new market-based interest rate and $1,411,000 for increases necessary to maintain the current level of operations offset by reductions of $30,000. The proposed staffing level of 277 average positions is the same in 1984 as that of 1983.

The program increase of $500,000 is required to accomplish deeper market penetration in promoting the new market based rate. This includes $150,000 for increased travel, a $120,000 increase in advertising, and additional $150,000 for printed consumer material, and $80,000 for increased distribution costs. These additional funds will permit the Division to more aggressively pursue the marketing advantages of the new interest terms. Without these funds, our efforts will have to be reduced, with a consequent reduction in the Program's cost effectiveness.

In 1983 the Division underwent a reduction of 70 average positions. Twenty of these positions resulted from the closing of the National Promotional Materials Center due to the contracting out of this work and the remainder were the result of an orderly phasedown of FY 1982 staffing reductions. No change in staffing from the FY 1983 level is proposed for FY 1984.

We are requesting a proposed transfer from the Bureau of the Public Debt of $239,000 to cover part of the pay increase for fiscal year 1983. Through various economies and savings we will be able to absorb the difference of $219,000.

MANAGEMENT IMPROVEMENTS

In addition to dealing with adverse market conditions, the Savings Bonds Division itself has undergone a substantial change in organization, resources, and management.

A 34% staff reduction during FYs 81 and 82 has resulted in four reductions in force, and a total reorganization of our headquarters and field operations during FY 82. With this streamlining completed, the Division is fully prepared for its task.

Also during FY 82, there was a complete turnover in top management personnel. Many senior level positions are now held by individuals who are new to the Division, and who possess a diversity of skills and experiences which enable us to manage the program toward our objectives. A three point management strategy has been adopted:

Results Orientation: A goal-based management and budgeting system has been implemented which specifies and systematically links the Division's long range strategic goals, shorter range managerial performance objectives, and internal resource allocations. Achievement of the approved objectives within the resources assigned form the basis for Merit Pay decisions, thereby holding individual managers accountable for their results. Innovation and resourcefulness in carrying out program activities is encouraged and rewarded under this system, while a business-as-usual orientation is not.

Efficiency: Overall productivity improvement is implicit in our long-range strategic objective, which requires increasing performance at stable resource levels. Improved productivity and performance measurement systems will promote efficient management of our resources.

Accountability: New internal control systems will assure the integrity and reliability of our operations and performance reporting.

RESPONSE TO GAO REPORT

In a report submitted to Representative Frank Wolf in August 1982, the General Accounting Office criticized the Treasury's handling of past abuses in performance reporting by Division employees, expressed doubt about the internal control systems which were put in place to deal with that problem, and questioned the overall productivity and cost effectiveness of Division programs to market U. S. Savings Bonds.

Treasurer Buchanan responded in full to Representative Wolf, members of this Committee, and other members of the House and Senate as required by law. However, I would like to summarize the actions we have taken.

The General Accounting Office's interpretations of performance reporting abuses within the Savings Bonds Division notwithstanding, a Treasury Department investigation, conducted by the Inspector General, reached different conclusions. Based upon detailed reviews of the actual records involved, only a limited pattern of serious misconduct was found. Therefore, while the incidences of actual wrongdoing uncovered by the investigation are intolerable and have been dealt with by dismissals, suspensions, and other disciplinary actions, we conclude that these practices were not widespread.

Moreover, I believe that controls established in March 1981 are effective in detecting and deterring such practices, as our records indicate. These controls are being continually reviewed and refined.

Briefly, our actions relating to or taken because of the GAO recommendations are as follows:

The Cost-Benefits of Promotional Activity

As mentioned earlier, the Division's staff has been reduced, and its budget stabilized at $16 - $17 million, equaling only four tenths of one percent of all costs associated with the Savings Bonds Program.

The GAO report states that when interest rates on Savings Bonds are fair in comparison to market rates, the Division's promotional activities support sales. The new rate structure described earlier is inherently fair. If the average Treasury interest rate drops to 10% in 1983, and the average Savings Bond rate rises to 7.5%, more than $1.7 billion in interest costs can be avoided due to the Savings Bond marketing effort even if the dollar amount of savings bond debt outstanding just stays the same. These benefits equal about 100 times the Division's budget, and will be more if the outstanding amount grows beyond the present $68 billion level.

We are in the process of designing and implementing a comprehensive new productivity and performance measurement system. It will be developed using input from a wide variety of individuals who are in a position to view the Savings Bond Program from different perspectives, and will form the basis for Division-wide as well as individual performance measurements.

The Adequacy of Internal Controls

The Division has undergone a comprehensive evaluation and strengthening of internal control systems. In September 1982, using the guidelines issued in OMB Circular A-123, "Internal Control Systems", the Division employed the services of a team of analysts from another Treasury Bureau to assess its vulnerability to waste, fraud, and abuse. The team found that none of our major systems are significantly vulnerable as presently designed and managed.

Our program of telephone audits of field representative reports has been adjusted, based on an analysis of the statistical probabilities involved. This analysis was prompted by GAO's concerns and we have expanded the sample by 200 to 360 reports per month.

In the reorganization of Division headquarters, a management analysis and audit staff has been created to conduct the telephone audit program, as well as on-going reviews of field office activity. These reviews include planned and unplanned on-site analyses of operations, resource utilization, record keeping, and — in liaison with the Treasury Inspector General — integrity issues.

We believe we have responded aggressively and effectively to the criticisms leveled by the GAO, and intend to maintain the integrity, accountability, and overall performance of the Division at the very highest level.

Mr. Chairman, and members of the Committee, this concludes my prepared statement. We will be happy to answer any questions that you may have, and with your permission, here are some sales charts that we would like to have inserted in the record.....

BUDGET REQUEST

Ms. BEEBE. Thank you.

I am very pleased to be here, Mr. Chairman, to present the fiscal year 1984 budget request for the Treasury's Office of the Secretary, Bureau of Government Financial Operations, Bureau of the Public Debt, the U.S. Savings Bonds Division, and the Bureau of the Mint.

These organizations, as I know you are aware, carry out some of the most basic functions of our Federal system of Goverment; that is, paying its bills, financing the public debt, manufacturing coins, and advising the President on monetary, fiscal, domestic, and international policy matters.

With the budget that we are appearing for today, we will continue to carry out these basic functions.

OFFICE OF THE SECRETARY

To begin with, I would like to highlight the Office of the Secretary.

The Office of the Secretary serves as the principal policy formulation and administrative oversight unit in the Treasury Department. We are responsible for assisting the Secretary of the Treasury in carrying out his broad responsibilities as chief financial officer of the U.S. Government, advisor to the President on economic, monetary, and tax policy, and manager of the Treasury Department.

To carry out these broad responsibilities in fiscal year 1984, we are requesting a total of $69.9 million and 1,268 full-time equivalent positions. This request is broken down as follows: $21.4 million will support broad policy formulation activities, including tax policy, economic policy, monetary affairs, and fiscal policy; $13.6 million will support international activities, including international monetary affairs, development financing, and trade and investment policy; $5.7 million will support the audit and internal investigation services of the Inspector General, reflecting the consolidation of the resources of the non-enforcement bureaus for these functions; $20.5 million will be used to enable the Office to carry out its departmental administrative oversight responsibilities; and, finally, $8.8 million will cover costs associated with maintaining and operating the main Treasury Building and the annex, as well as repairing and improving these buildings.

Our fiscal year 1984 budget encompasses major goals for the Office of the Secretary.

CONSOLIDATION OF THE OFFICE OF THE INSPECTOR GENERAL

First, it reflects the consolidation of the Office of the Inspector General in order to strengthen efforts to combat waste, fraud, and abuse. This consolidation, while increasing the Office of the Secretary budget for fiscal years 1983 and 1984, does not affect the overall departmental budget, as there are corresponding decreases in resources for other affected organizations.

A second initiative in this budget is to strengthen efforts we have to upgrade Treasury systems. We have recently established a new senior level position, the Assistant Secretary for Electronic Systems and Information Technology, who has responsibility for oversight of systems development throughout the Department.

A third goal is to provide for certain increases for building repairs and the upgrading of our computer systems and equipment to enhance productivity. We are requesting $900,000 to repoint the masonry and to clean the exterior surfaces of main Treasury and the annex. These buildings were last cleaned in 1956, and these repairs are badly needed. We are also seeking an additional $1.7 million to upgrade Treasury computer systems and to provide for additional word processing and general data processing support.

Finally, our Office of the Secretary budget also includes a proposal to merge the salaries and expenses and international affairs appropriations. Operating under these two separate appropriations in a single, relatively small organization has proven burdensome.

Bureau of Government Financial Operations

Turning now to the Bureau of Government Financial Operations, the Bureau of Government Financial Operations is responsible for operating and managing Federal collection, cash management, and payments systems. Its overarching mission is to promote the financial integrity of the U.S. Government through sound money management on behalf of the public.

In fiscal year 1984, we are requesting $243 million to support the operations of this Bureau. This represents a decrease of almost $1 million below the revised amount for fiscal year 1983. Within that total, we are asking for program and other increases totaling $21.7 million, which are more than offset by productivity and other reductions of $22.7 million.

Our request includes $15 million to support several projects designed to modernize the systems by which the Government collects, manages, and disburses its funds. In fiscal year 1984, the Bureau will convert from card to paper checks; upgrade the computer systems at its disbursing centers; improve the efficiency of existing systems; particularly in the area of cash management; and explore the application of new technologies to all major systems. Greater efficiencies in these systems will not only result in direct savings, but will enable us to plan better for a variety of financial purposes, including financing the public debt.

Senator ABDNOR. Madam Secretary, with $22.7 million reduction, is some of that going to be manpower?

Ms. BEEBE. A small portion of that is in manpower, but it results primarily from deleting one-time costs incurred in fiscal year 1983. It also reflects savings derived from greater participation in direct deposit and a decision to transfer a portion of our program to the IRS involving $4.8 million and 7 staff-years.

Senator ABDNOR. Mr. Douglas, do you want to comment further?

Mr. DOUGLAS. Yes, Senator, thank you.

There are some relatively small people savings, reducing the size of the Bureau. But it is primarily changes in the way we do business and some programs we have which will allow us to make major dollar savings.

Senator ABDNOR. Thank you. I am sorry I interrupted you.

Ms. BEEBE. In total I might just point out that we will save 41 positions. Our request includes $15 million to support several projects to modernize the systems by which the Government's collection and disbursements are made.

IMPROVING CHECK CLAIMS OPERATIONS

Among the projects proposed for fiscal year 1984 are several that will improve check claims operations. The interest billing project will help to secure reclamations due from banks as the result of forged checks. The recertification project will reduce double payments by placing additional responsibility within program agencies who deal directly with recipients. The redesign of the check payment and reconciliation system will significantly improve the data available regarding check issuance and payment. Finally, our efforts to increase participation in the direct deposit/EFT program will, over the long run, greatly reduce operating cost and difficulties arising from paper-based systems.

Also included in the Bureau's budget for fiscal year 1984 is $2.4 million to move its headquarters operations from seven sites in the Washington, D.C. area, to a single location. This is very important to us in improving efficiency in this Bureau.

Senator ABDNOR. From seven locations?

Ms. BEEBE. Seven locations in the Washington, D.C., area.

Senator ABDNOR. Do you have facilities large enough to contain this?

Ms. BEEBE. The General Services Administration has a prospectus in its 1984 budget which will have the purpose of locating and moving us to a central location. There are buildings available in the Washington, D.C., area.

BUREAU OF THE PUBLIC DEBT

Now for the Bureau of the Public Debt.

The Bureau of the Public Debt is responsible for the administrative functions associated with the conduct of Treasury's debt financing activities and for accounting for the public debt.

To carry out these functions in fiscal year 1984, including the operations of the Savings Bonds Division, we are requesting an amount of $205.6 million.

Our fiscal year 1984 budget projects an increase in savings bonds sales of 4.5 percent above estimate fiscal year 1983 levels. This reflects our belief that the variable, market-based interest rate on savings bonds makes the bond much more attractive and competitive. In fact, on average, savings bonds sales so far this fiscal year are up 20 percent over the same period last year, and redemptions have declined by 29 percent.

The amount of savings bonds debt outstanding has increased by $843 million, to a total of $68.5 billion in just the first 4 months of the fiscal year. These early trends are very encouraging and buttress our belief that the new instrument will be attractive and thereby preserving and enhancing a valuable means of financing the Federal debt.

With respect to the processing of marketable and special securities, including registered and book-entry accounts, the budget assumes that the level of activity will remain high in fiscal year 1984. We have asked the Federal Reserve Banks to estimate the costs and time required to develop a Treasury book-entry system for notes and bonds, to be operated in the Federal Reserve Banks. If their proposal is acceptable, we plan to move toward full book-entry for all new marketable Treasury issues.

The budget for the Bureau of the Public Debt also includes an increase of almost $900,000 for technological improvements to speed the processing of savings bond redemptions.

The Savings Bonds Division is responsible for promoting savings bonds which, as this committee knows, are an extremely cost-effective mechanism for financing the public debt.

The fiscal year 1984 request for the Division is $16.8 million and 277 average positions. The single, significant increase in the budget is for $500,000 for costs associated with the promotion and advertising of the new bond. Such promotion is essential, we believe, given the highly competitive nature of the marketplace.

BUREAU OF THE MINT

Our last business this afternoon is the Bureau of the Mint.

The primary function of the Bureau of the Mint is to manufacture the Nation's coins. To support that mission in fiscal year 1984, we are requesting a budget of $49.6 million and 1,151 average positions for salaries and expenses and $3.1 million for expansion and improvements.

The salaries and expenses request represents a net increase of $2 million and a net decrease of 104 positions from the comparable fiscal year 1983 levels. This funding will permit the Mint to increase coin production from 17.6 to 21 billion coins. This production level will meet the projected coin demand for that year and maintain inventories at levels necessary to insure adequate coin supplies for the Nation's economy.

The Mint's budget for salaries and expenses also contains decreases of $7.2 million and 164 average positions, reflecting the extended shutdown of the in-house coinage strip facility at Philadelphia and the closure of the New York Assay Office.

For expansion and improvements, the request is a decrease of $2.1 million from the fiscal year 1983 level and represents the final funding requirement of a multiyear $18 million project to increase coin production capabilities.

Revenues resulting from the fiscal year 1984 operations of the Bureau of the Mint are estimated to be approximately $1.064 billion, consisting of $647 million in seigniorage and $417 million from the sale of gold medallions and miscellaneous numismatic programs.

Mr. Chairman, our budget also includes several proposals in what are called the general provisions of the Appropriations Act. I would like to highlight these, if I might.

First, we are requesting authority to permit the transfer of up to 2 percent of any appropriation to another appropriation. This authority, for example, will provide us with needed flexibility to address problems as they develop through the year.

Under our general provisions, we are also seeking to remove a restriction that has been placed upon the U.S. Customs Service, preventing that organization from collecting funds legitimately owed. Specifically, recent court decisions have determined that Treasury lacks the legislative authority to require the payment of certain customs bills in a timely fashion. Our proposed language will remedy that situation by establishing that payments fall due upon liquidation or reliquidation.

Finally, Mr. Chairman, we are seeking language which would repeal an obsolete limitation in the Office of the Secretary working capital fund.

That concludes my statement, Mr. Chairman. We would be pleased, my colleagues and myself, to respond to any questions.

Senator ABDNOR. Thank you, Madam Secretary, for a very precise and excellent statement. I see again this year the Department has proposed to combine the Office of the Secretary's account with the international affairs account.

In past year, the Congress has opposed you on this and prohibited the move. We appreciate and admire your try and try again attitude. But for the record, why don't you elaborate once again on the proposal.

Ms. BEEBE. We are a tenacious department. We learned that from the IRS.

INTERNATIONAL AFFAIRS ACTIVITY

Mr. Chairman, we would like to work closely with you and the committee to provide the oversight responsibility that you would like for the international affairs activities, separate from the other activities of the Office of the Secretary. However, combining the two appropriations will provide us with much-needed flexibility in managing the small, integrated Office of the Secretary.

Of the $22 million that would be in this budget for the international affairs, only $13 million of that actually is spent by the Office of the Assistant Secretary for International Affairs. The remaining funds are spent for positions throughout the Office of the Secretary.

If I might illustrate from my own area, in my budget division, we prepare the budget for international affairs; we also prepare the budget for the rest of the Office of the Secretary. I have people funded on the IA account and S&E account. And in any given day they may work on both sides of problems. For example, in maintaining the main Treasury Building, we have to maintain two separate accounts. These include how much of the fuel and how much of the cleaning bill is associated with IA activities, and how much with the Office of the Secretary.

If you are in the Office of Tax Policy, a portion of your staff are working on international activities—for example, negotiating a tax treaty—and part are working on domestic issues say—withholding on interest and dividends. The individual staff member may work across both of those functions. We are asking the committee to merge two appropriations into a single appropriation that will relieve us of very burdensome appropriations reporting requirements, while still providing a separate line item in the budget for which we can come before this committee and request appropriations for our international activities.

Senator ABDNOR. Would we be able to see year to year how the funds are used?

Ms. BEEBE. Absolutely. We certainly would provide you with records that would show how much we requested and how much we spent. The problem is that we would not account for——

Senator ABDNOR. No, no. I mean so we can see specifically how much was spent on international.

Ms. BEEBE. Yes.

Senator ABDNOR. I mean other than the combined offices.

Ms. BEEBE. Yes.

In the proposed appropriation structure, which we certainly would be happy to modify with you, we have identified a separate line item for international affairs. And we would propose to do that annually.

INTERNATIONAL TRAVEL

Senator ABDNOR. If these two funds are combined now, would we fund the international travel separately, or would that be all within the same account?

Ms. BEEBE. We would maintain a single account for travel. But in the line item in the budget which speaks to international affairs, we would give you a breakdown as we have for this year, that shows for that line item how much is for travel, how much is for each of our various salaries and expenses, and how much for equipment.

Senator ABDNOR. Your Treasury Building, or our Treasury Building, that is not under the control of the GSA; that is your own operation?

Ms. BEEBE. That is correct.

Senator ABDNOR. You have no association with GSA on manpower there, keeping up the building? That's all on your own; is that right?

MAJOR REPAIR PROJECTS

Ms. BEEBE. Yes; now, the Office of the Secretary is located primarily, but not solely, in the main Treasury Building. And we maintain the general operations of that building. We also come before you annually for appropriations for major repairs to that building. If such funds are appropriated, it has been our practice in the past to contract through GSA for these major repair projects to be completed. So we work very closely with GSA.

But the day-to-day management is under our control and the appropriations associated with the building are also under our control. The Bureau of Government Financial Operations is in the Annex Building, which is also owned by the Treasury Department and managed in the same manner.

Senator ABDNOR. How many positions do you have to allocate for maintaining the building?

Ms. BEEBE. I don't know the number right offhand. Sixty positions.

Senator ABDNOR. We do have GSA under this committee.

You know my concerns for law enforcement. I have very clearly brought that out in the last several years. We have been somewhat instrumental in enforcing the Department's law enforcement agencies, what we thought was their proper levels and what they thought. And there is still some confusion I believe regarding the situation.

I have heard the President time and time again state that law enforcement is a top priority of this country under his administration. Drugs have become an epidemic problem. And the administration's interest with the Drug Enforcement Task Force they have working in Miami and the results they have had shows they are dedicated to it. And they are committed to cutting down on drugs, not only in use but importations.

Now, the U.S. Customs agents'—and there are efforts that have a real telling effect on drug activities in Florida—role is being expanded and yet the department is proposing a reduction of 2,000 agents. It just dumbfounds me.

And I can tell you I don't like it. Somebody has to convince me we have to drop 2,000 people out of the Customs and carry on with a greater degree of intensity in wiping out drugs.

Ms. BEEBE. I will be happy to comment on it. And Mr. von Raab, when he appears before the committee, will also be pleased to.

LAW ENFORCEMENT AREAS

As you know, the Customs budget is composed of significant increases in the law enforcement areas. We have increases in the budget associated with the President's organized crime drug task forces. We also have increases for project Exodus and for a second air module for drug interdiction.

We have, however, looked at the total resources of Customs Service, and in trying to develop what we thought to be our best budget, have proposed, as you noted, a 2,000-position decrease in other areas in the Custom Service.

Senator ABDNOR. Like where?

Ms. BEEBE. Maybe I can outline what they are. They fall into several areas.

First of all, some of the reductions fall in area where there will be almost no impact. For example, we have changed the way we administer bonded warehouses. We did this several years ago, as you may remember, in ATF. And as a consequence of auditing the records rather than having personnel on site, we will save 114 positions and $2 million.

We have consolidated some of our offices and our administrative services and streamlined them, resulting in savings of 170 positions and $6.7 million. We have centralized our appraisement locations and will save $5.7 million and 156 positions.

Through various normal efficiencies that almost every agency has reflected in its budget, we will save 192 positions and $7 million.

Now, there are also two areas where we are significantly reducing the level of our presence. The first is in the area of inspection and control.

We feel that this area will lend itself to more selective systems and greater automation, enabling us to handle our workload there with fewer resources. And here we are proposing a reduction of $34.4 million and 918 positions.

You might be familiar with some of the new experiments that we have been carrying on last year and this year in that area. We have been working, for example, on an automated seaport where we would audit the records after the fact rather than as the cargo is coming through. And through such experiments as this, we will be making savings in the way we do the inspection or control program.

TARIFF AND TRADE SELECTIVITY

The second area is in the area of tariff and trade selectivity. Here we are proposing a saving of $16.8 million and 450 positions. Again, we are going to apply the post-audit approach or technique to this area. And through those techniques we will be able to save significant staff.

Senator ABDNOR. Well, as I say, we will probably get the detailed breakdown in writing at the time the Customs people come in.

Ms. BEEBE. In no way do these impact, for example, on Florida, or the President's task force where we have requested $14.4 million and 200 staff-years, and for Exodus where we have requested $30 million and 292 staff-years, those other increases that we proposed.

Senator ABDNOR. Fine. I'm glad we have your thoughts because it took me by surprise when I saw the numbers. We will have a chance to go through it more in detail.

Ms. BEEBE. Well, we will be happy to sit down with you and describe the proposal in detail, if you would like.

SALE OF SECURITIES

Senator **Abdnor**. You talked about savings bonds a few moments ago. I had a gentleman come up to me and ask me why it is so difficult to find how to buy Treasury notes. And the person says that only goes through the Federal Reserve when you buy a Treasury——

Ms. **Beebe**. Are you talking about savings bonds or are you talking about——

Senator **Abdnor**. Treasury notes it is. Is that outside of your realm?

Ms. **Beebe**. No.

Perhaps, Mr. Gregg would like to respond.

Senator **Abdnor**. Well, I am just asking because a guy jumped me.

Ms. **Beebe**. I think he is probably mistaken. I believe it is quite easy to buy a Treasury bill. You can walk into our building and purchase one.

Senator **Abdnor**. Yes; but let's talk about some guy who lives out in South Dakota.

Mr. **Gregg**. Information about the purchase of Treasury securities is available from the Federal Reserve Banks and branches around the country. We answer a good bit of inquiry by mail on that subject. And the procedure does permit individuals to obtain forms from Federal Reserve Banks or from Treasury directly by writing to our Bureau. They may actually subscribe and purchase the securities by submitting their applications and tenders by mail, either directly to Treasury or to a Federal Reserve Bank.

Senator **Abdnor**. Well, thank you. I don't know of any way you could make it simpler. But it does not seem quite as simple as picking up a savings bond.

Ms. **Beebe**. We have 44,000 issuing agents for savings bonds.

Senator **Abdnor**. Well, you at least answered my question. In case the man jumps me again, I will give him an answer.

BUREAU OF GOVERNMENT FINANCIAL OPERATIONS

Let me talk for a moment about the Bureau of Government Financial Operations.

Now, you propose to purchase ADP equipment currently being leased. It would appear that this will result in savings on the short term. Will that savings prove to be there in the long term?

PURCHASE OF ADP EQUIPMENT

Mr. **Douglas**. Yes, sir, Mr. Chairman. We are proposing that we receive approximately $2 million in 1984 appropriations in order to purchase rather than continue to lease ADP equipment through the useful life of the computer system which would run through 1991. The savings to us over an 8-year period will be about 22—a little in excess of $22 million. So in one sense we are investing $2 million in over about a 7- or 8-year period. We will save a little over $22 million.

Senator **Abdnor**. Equipment costs $2 million?

Mr. **Douglas**. Beg your pardon, sir?

Senator ABDNOR. The equipment will cost $2 million at——

Mr. DOUGLAS. If we rent it from the computer company for the entire life of the equipment, the total cost would be about $47 million. If we purchase it—and we would need an additional $2 million to do that, over money that's already been appropriated for leasing—we would need a total of about $25 million. And so we would net out a savings of about $22 million.

Senator ABDNOR. Over how many years?

Mr. DOUGLAS. It's to 1991.

Senator ABDNOR. That equipment will stay in great shape all that time? You are not going to come back and say——

Mr. DOUGLAS. Yes, sir. That is the projected useful life of the equipment; it would be to the end of this decade.

DIRECT DEPOSIT UPGRADING

Senator ABDNOR. Now, there are funds included to continue the upgrading of the direct deposit electronic funds transfer. And you are well aware the Congress has prohibited the use of EFT for the alcohol beverage industry's payment of excise taxes. At this time it is the committee's intention that this prohibition remain in force. Will this position impact this proposal?

Mr. DOUGLAS. No, sir, Mr. Chairman. We are well aware that the committee has a prohibition. And we would not use electronic funds transfer methods or techniques for the collection of alcohol or tobacco taxes, and are not doing that now, and would not propose to do it in 1984.

The direct deposit program, for example, is a program which uses electronic funds transfer to make payments to social security recipients and other recurring recipients.

Ms. BEEBE. Mr. Chairman, I wonder if I might speak directly to the cigarette and alcohol proposal, although, as Mr. Douglas points out, the increase in question is not for that purpose.

Regarding the use of EFT for alcohol and tobacco taxes, we proposed that last year, and we are asking the committee to reconsider it again this year. At the present time the alcohol industry makes payments twice a month, and the cigarette industry makes payments on a monthly basis. In those industries the use of EFT is a very common practice. They are already using it themselves. What we are asking this committee to do is to allow us to use this system to collect those taxes which are legitimately owed to the U.S. Government. It is a practice which is well established throughout the community at large. It is a practice, as Mr. Douglas has just described, that we use widely in the Treasury. We are both receiving payments and making payments through that mechanism.

If we were allowed to use this mechanism from year to year, there would be savings of over $9 million annually from using this method to pay those taxes. In the first year alone we have a significant one-time savings of over $200 million, which occurs simply by them paying those taxes a few days earlier.

Senator ABDNOR. So you collect the money earlier. How do you get by with all the——

Ms. BEEBE. Well, the taxes are due on a certain day. What happens is that they mail their checks to the U.S. Government, which then has to open them and process them through a depository. If it were transferred via electronic means the money would be immediately credited to the account of the Treasury Department. There are several days lag in the current process which means that the general public at large is required to finance the loss of those amounts of money. In other words, the total general public that pays taxes is supporting these extra 2 or 3 days in which they are taking to make their payments to the U.S. Government. So we feel that we ought to receive those payments via EFT.

Senator ABDNOR. Don't take it wrong; that sounds like a great argument, but that's what I heard over this bank withholding. But I see people lining up en masse and they have got other thoughts on it.

Ms. BEEBE. I appreciate it that the industry finds it to their financial advantage. But I think we must also consider the advantage to the U.S. Government, and to the general taxpayer, from requiring the payments to be made in that method.

Senator ABDNOR. I keep trying to tell my people that on another issue, but I have not convinced them.

Ms. BEEBE. We will try to help convince them with you.

CONVERTING TO PAPER CHECKS

Senator ABDNOR. The Department proposes to convert to paper checks now. Now, is the pilot program currently in place? Are you satisfied that it is proving itself effective and has long-term savings projections?

Mr. DOUGLAS. Mr. Chairman, we have not yet started the pilot program. It will begin this summer, and we will test it with Air Force disbursing. We will run a second test program toward the end of this calendar year or very early in 1984. And depending on our experience with those tasks, we would plan on being able to implement it in the latter part of fiscal year 1984.

So we have a very carefully planned program of testing to insure the conversion to paper checks is a successful one because it has a very large impact across the country, the Government, and recipients of Federal payments.

Senator ABDNOR. You are going to try it on a pilot program?

Mr. DOUGLAS. We will do small pilot tests, first with the Air Force and then with using one of our disbursing centers, and we will learn from those experiences before we would implement full-scale across the board.

Ms. BEEBE. Mr. Chairman, there are very significant savings in the long run to accrue from this program. More importantly, the current equipment that the Bureau is using has become obsolete. And we have learned from the manufacturer that in the near future they will no longer guarantee maintenance of the equipment for us. So we really have to move quickly into new solutions. The equipment we are using now is very outdated—Ernie, if you could help me.

Mr. DOUGLAS. It is a punch print technology that is no longer made by the vendor, has not been made in a number of years. It was put in our centers in the late 1950's, early 1960's. It is well over 25-year-old technology. And almost everyone in the private sector, Mr. Chairman, has moved away from the card check technology. In addition to that, we are projecting savings on an annual basis of about $3 million because buying paper stock for checks is much less expensive than buying card stock.

Senator ABDNOR. Thank you.

One last question.

TRAVEL AND TRANSPORTATION REQUEST

I could not help but notice your travel and transportation request is about a 60-percent increase over fiscal year 1982. Now, how come the big increase?

Ms. BEEBE. Mr. Chairman, which of our bureaus are you referring to?

Senator ABDNOR. The GFO. I think the figures are right. In relation to 1982, the figure has gone up quite rapidly here, $532,000 you are requesting.

Ms. BEEBE. That reflects some of our funding problems in 1982. We can provide you with more detail.

Senator ABDNOR. Why don't you do that.

Mr. DOUGLAS. I will be pleased to provide that for the record, sir.

[The information follows:]

BUREAU OF GOVERNMENT FINANCIAL OPERATIONS TRAVEL

The Bureau of Government Financial Operations has requested $532,000 in appropriated funds for travel in fiscal year 1984. This represents a 69-percent increase over the Bureau's travel expenditures in fiscal year 1982, $315,000.

The increase from the 1982 level reflects, in large measure, the unusual character of Bureau funding in 1982. Until enactment of a supplemental appropriation on July 18, 1982, the appropriated funds available to the Bureau were insufficient to fund its operations for the entire year. Most of the Bureau's expenditures are for operations which cannot be reasonably curtailed, such as, processing and mailing Government checks. In order to prolong operations, the Bureau operated for nearly 9½ months with extraordinary limits on all noncritical expenditures. These limits included a sharp reduction in travel. Bureau personnel made 826 trips in 1982, down sharply from 1,019 trips in 1981 and 994 in 1980.

The request for fiscal year 1984 also reflects an increase in travel over what might be considered historic or normal levels. In fiscal year 1984, the Bureau will be installing and testing new computer systems in its eight disbursing centers. Onsite review and testing by headquarters staff will be required. The direct deposit/electronic funds transfer marketing program planned for 1984 also includes increased travel for field seminars and training programs for Government agencies and financial institutions.

DEMAND FOR COINS

Senator ABDNOR. Very good. We will move right along here. I just have a couple of questions on the Bureau of the Mint, if I might.

How long would we know that the demand for coins are going to continue; how long do you foresee before current facilities cannot meet the demand?

Ms. POPE. Mr. Chairman, at the present time we are in the midst of an expansion and improvement project, at the Philadelphia Mint but mostly at the Denver Mint. It is an $18 million project that began about 4 years ago. Our expansion and improvement request, $3.1 million, really completes the $18 million request. That will take us through 1985 and give us a capacity on a 5-day-a-week, three-shift, 8 hours a shift, of approximately 22½ billion coins. We estimate that is about what the demand will be at that time.

We are presently running an experiment at our West Point facility, and just about closing out on that one, and also one at the Denver Mint, making sure that our equipment is being used at all times and using temporary help that have been trained as coin press operators on Saturday and Sunday. That is giving us an additional 2 billion coins for this year if the experiment goes to its completion.

So even though the expansion and improvement gets us up to what the coin demand will be on a regular three, eight, five situation by using some of these other techniques, we can also expand our coin production.

Senator ABDNOR. Well, 1985 isn't far away. How soon will the Denver Mint be in place?

Ms. POPE. In 1985.

Senator ABDNOR. So you are in good shape until then. And then how many years of insurances do you have that you can meet the demand with what you have by 1985? Can you project that?

Ms. POPE. Yes; we have another plan with various options on how we can use some of our facilities and some of our space. I just discussed one, the option of working 7 days a week, which will also increase our coin production capabilities. But there are also a number of other options. We have gone to a new zinc cent—and the conversion has gone quite well, by the way, Mr. Chairman, and we are totally converted. As soon as we are absolutely certain that everything is running beautifully—we are also at that point right now—we will remove some of the equipment that we used for the copper cent, and that will give us more space and more coining capabilities.

We have temporarily mothballed our strip operation of our Philadelphia office, which will give us more space in the Philadelphia area for future coin demands. There are a number of options that we have ready to put into place and will probably put together some kind of financial package in the very near future to see what the financial requirements will be in addition to the space requirements.

Senator ABDNOR. All right.

You mentioned mothballed——

Ms. BEEBE. Mr. Chairman, let me just mention, I don't think we will be coming before this committee in the 1984 budget period for additional funds beyond those in this budget for improvement and expansion. I think that we are talking about another 2 or 3 years before we are ready to consider any major projects under that item.

Senator ABDNOR. Fine.

STORAGE OF SUSAN B. ANTHONY DOLLARS

You have coins from time to time that are not too readily accepted by the public. Do put those away in storage? The Susan B. Anthony; that is a good one. What do you do with that?

Ms. POPE. Yes, Mr. Chairman, you hit upon one of our major dilemmas at the moment.

As you may know, 800 million Susan B. Anthony dollars were minted in past years. There have been no Susan B. Anthony dollars minted since 1980. In 1981 we did produce some Susan B. Anthony dollars, but none for circulation.

There are 300 million which are supposedly in circulation. Where in circulation no one seems to know. And 500 million are in our inventories. Between the Federal Reserve Banks and the mints we have 500 million Susan B. Anthony dollars in storage. We are transferring some of them that were in storage at the Denver Mint to the Denver Federal Reserve.

But you are right; the public just did not accept them.

Senator ABDNOR. Did you have that happen on other coins, forgetting that coin particularly?

Ms. POPE. That is the only one we have a problem with.

Senator ABDNOR. That is the one you'd like to forget about.

Is it costly to take them out of circulation?

Ms. POPE. Well, the circulating coins are not the problem. It's the 500 million in inventory——

Senator ABDNOR. That is what I was getting to. Don't you have to take the ones out of circulation? I mean, what do you do? You could do away with the 500 million and let the others stay in circulation.

Ms. POPE. There appears to be somewhat of a bookkeeping problem with doing away with the 500 million in circulation. I see what you mean by that; the logical question, Why don't you just melt them down so you don't have to pay for storage of them or worry about using up vault space?

It costs between 3 and 4 cents to produce a Susan B. Anthony. As soon as we mint that dollar, it is put on the books for the face value of $1. If we would melt them down, we would be left with 3 to 4 cents worth of metal. No one has figured out how we write off a 97 cents loss.

There have been a number of suggestions that perhaps in future years the Anthony dollar will be used for bus fares that are climbing to a dollar in many areas and there is a great problem with paper money in the fare boxes. Although it appears that many transit systems have gone to the use of tokens rather than using our Anthony dollars. There's also been a suggestion that perhaps the dollars could be used in the future in the event there was any kind of an emergency. But short of those two ideas, we have 500 million Anthony dollars that we are very reluctant to melt down and take the 97 cents loss on each one.

FEDERAL RESERVE BANK REIMBURSEMENTS

Senator ABDNOR. Let me ask about the Bureau of Public Debt.

For the record, could you elaborate on the reimbursement costs to the Federal Reserve Bank and how it works?

Mr. GREGG. Yes. Mr. Chairman.

The Federal Reserve Banks, as you know, act as our fiscal agents in dealing directly with the public on nearly everything that we do in the area of selling securities. For this service we reimburse them on pretty much a direct reimbursable basis which covers nearly everything that they do for us.

The projections for fiscal year 1984, which are covered by this budget request, are for $44.4 million, which is an increase of $3.4 million as compared to the budget authority for fiscal year 1983. This request is a reflection of increased volume; that is the work we expect that the banks will be doing for Treasury as fiscal agents, and some cost increases within the banks, salaries, supplies, and things like that.

Senator ABDNOR. One other thing. Could you provide for the record—the list of foreign holders in the foreign debts?

Mr. GREGG. Yes, Mr. Chairman, I'd be happy to do that.

[The information follows:]

FOREIGN HOLDINGS OF U.S. TREASURY SECURITIES

Outstanding amounts of U.S. Treasury securities held by foreigners as of year-ends 1980. 1981. and 1982 are as follows:

ESTIMATED TOTAL FOREIGN HOLDINGS OF MARKETABLE AND NONMARKETABLE TREASURY BILLS, NOTES AND BONDS REPORTED BY BANKS AND BROKERS AS OF SELECTED YEAR-ENDS 1980, 1981, AND 1982

[In thousands of dollars]

Country	Dec. 31, 1980	Dec. 31, 1981	Dec. 31, 1982 (preliminary)
Europe:			
Austria	43.000	234,000	243,000
Belgium-Luxembourg	1,700.000	1,936.000	443,000
Denmark	236,000	122,000	456,000
Finland	87,000	116,000	675.000
France	8,313.000	4,908,000	3,027.000
Germany	33,946,000	28,490,000	26,698,000
Greece	52,000	23.000	25.000
Italy	4,137,000	3,261,000	1,091,000
Netherlands	2,685,000	2,843.000	3,978,000
Norway	638,000	734,000	899.000
Poland	5.000	1,000	([1])
Portugal	1,000	2,000	3.000
Spain	87,000	54,000	61,000
Sweden	1,641,000	1,448.000	2,111,000
Switzerland	8.201,000	6,662.000	13,051,000
Turkey	([1])	([1])	1,000
United Kingdom	7,264,000	6.548.000	6,794,000
U.S.S.R	([1])	([1])	([1])

See footnote at end of table.

ESTIMATED TOTAL FOREIGN HOLDINGS OF MARKETABLE AND NONMARKETABLE TREASURY BILLS, NOTES AND BONDS REPORTED BY BANKS AND BROKERS AS OF SELECTED YEAR-ENDS 1980, 1981, AND 1982—Continued

[In thousands of dollars]

Country	Dec. 31, 1980	Dec. 31, 1981	Dec. 31, 1982 (preliminary)
Europe—Continued			
Yugoslavia	(1)	(1)	(1)
Other Europe	631.000	602,000	844.000
Total, Europe	69,667,000	57,984,000	59,749.000
Canada	1,580,000	2,611,000	2.828.000
Latin America and Caribbean:			
Argentina	112,000	34,000	124.000
Bahamas	18.000	32,000	194,000
Bermuda	41.000	63.000	248.000
Brazil	1,000	3,000	12.000
British West Indies	10.000	35,000	167,000
Chile		(1)	4,000
Colombia	1,554,000	816,000	253.000
Cuba	(1)	(1)	(1)
Ecuador	19,000	36.000	(1)
Mexico	12.00	38.000	58,000
Netherlands Antilles	305.000	15.000	165.000
Panama	25.000	67,000	147,000
Peru	(1)	1,000	4,000
Trinidad and Tobago	83.000	220,000	262,000
Uruguay	(1)		9,000
Venezuela	159,000	158,000	87,000
Other Latin America and Caribbean	34,000	40,000	82,000
Total, Latin America and Caribbean	2,373.000	1,560,000	1,904,000
Asia:			
China:			
Mainland	(1)	(1)	(1)
Taiwan	818.000	1,133,000	1,304,000
Hong Kong	595,000	893,000	1,208,000
India	170,000	152,000	143.000
Indonesia	95,000	187,000	323,000
Israel	108.000	134,000	430,000
Japan	20,211,000	24,166,000	17,940.000
Korea	571,000	867.000	334,000
Lebanon	(1)	1,000	(1)
Malaysia	116,000	583,000	174,000
Pakistan	37,000	102,000	107,000
Philippines	35,000	34,000	97,000
Singapore	201,000	1,862,000	5,973.000
Syria			(1)
Thailand	224.000	241,000	195.000
Middle East oil-exporting countries	20,546,000	32,789.000	40,388,000
Other Asia	107,000	45,000	87.000
Total, Asia	43,834,000	63,204.000	68,707,000
Africa:			
Egypt	96,000	60,000	3,000
Ghana	(1)	(1)	(1)
Liberia	1,000	7,000	77,000

See footnote at end of table.

ESTIMATED TOTAL FOREIGN HOLDINGS OF MARKETABLE AND NONMARKETABLE TREASURY BILLS, NOTES AND BONDS REPORTED BY BANKS AND BROKERS AS OF SELECTED YEAR-ENDS 1980, 1981, AND 1982—Continued

[In thousands of dollars]

Country	Dec. 31, 1980	Dec. 31, 1981	Dec. 31, 1982 (preliminary)
Africa—Continued			
Morocco	(1)	(1)	(1)
South Africa	43,000	27,000	104,000
Zaire	8,000	1,000	(1)
African oil-exporting countries	2,933,00	921,000	557,000
Other Africa	55,000	59,000	100,000
Total, Africa	3,136,000	1,075,000	841,000
Other countries:			
Australia	607,000	934,000	5,512,000
All other	24,000	7,000	24,000
Total, other countries	630,000	940,000	5,537,000
Total foreign countries	121,221,000	127,359,000	139,564,000
International and regional:			
International	3,690,000	5,038,000	5,232,000
European regional			
Latin American regional	15,000		
Asian regional	3,000	48,000	355,000
African regional			
Middle Eastern regional	83,000	83,000	83,000
Total, international and regional	3,790,000	5,161,000	5,636,000
Grand total	125,011,000	135,520,000	145,201,000

Note: Detail may not add to total due to rounding.

[1] Less than $500,000.

SAVINGS BOND ACTIVITY

Senator ABDNOR. Just a couple of questions on savings bonds and I'll let you go.

The fluctuating money market has had an effect, I guess, as we all know, on the savings bonds activity. Now, the interests have stabilized to a degree. Are we seeing a trend returning to the purchase of savings bonds?

Ms. BEEBE. We are seeing a very positive trend.

Steve, would you like to comment?

Mr. MEAD. Yes.

Thank you, Cora.

Since November 1982 we have seen an increase in savings bonds sales of about 20 percent over what they were a year ago at the same period in time.

That is partly due to the stabilization of interest rates. Also we feel it has a great deal to do with our newly-introduced market based savings bond.

Ms. BEEBE. Mr. Chairman, you may be pleased to know that not only have our sales increased, but redemptions are down by about 29 percent over the prior year's period. So not only are we selling more, but people are not turning them in as they have in the past.

Senator ABDNOR. That is good.

ADDITIONAL COMMITTEE QUESTIONS

Well, there will be some other questions. And I know Senator DeConcini, the ranking minority member of this committee, would like to have been here. He has some questions, as other members of the committee might well have.

So we thank you very, very much for your attendance.

We from time to time do have questions, and we are not hesitant to call you.

Ms. BEEBE. We will be happy to respond.

Thank you very much, Mr. Chairman.

Senator ABDNOR. Thank you.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

QUESTION SUBMITTED BY SENATOR ROBERT C. BYRD

QUESTION: I am advised by your budget officer that the fiscal year 1984 budget for the Bureau of Public Debt facility in Parkersburg, West Virginia, is $27 million and 1,020 full-time equivalent personnel. This compares with a fiscal year 1983 budget of $25,146,000 and 1,020 full-time equivalent personnel. What are the prime activities that you intend to pursue at Parkersburg this year? Within the overall budget of $27,000,000, are there any increases or decreases? Are there any plans for the purchase of equipment in fiscal years 1983 or 1984? I trust that you will keep me informed if there are any changes contemplated at the facility.

ANSWER: The Savings Bond Operations Office in Parkersburg has two primary responsibilities. First, it has broad responsibility for administering the Savings Bond Program. In this context, it provides general oversight of the activities of the the Federal Reserve Banks and those financial and other institutions which act as our agents in issuing and redeeming savings bonds. The office establishes records of each bond sold and redeemed, it maintains accounts for the owners of current income bonds and authorizes the payment of interest to them, and it processes claims for bonds which have been lost, stolen or destroyed. Secondly, the Savings Bond Operations Office operates the Bureau's computer center, providing computer services to all Bureau offices both in Washington, D.C., and Parkersburg, West, Virginia.

We continually try to improve the efficiency and effectiveness of our operations in the Savings Bond Operations Office. For fiscal year 1984, we are requesting an increase of $888,000 to purchase Optical Character Recognition/Magnetic Ink Character Recognition equipment to streamline and modernize the processing of retired savings bonds. This equipment is expected to produce a net savings of $1,000,000 over its eight year system life. There will probably be some decrease in the number of employees we will need in the future as we implement this procedure and other initiatives to improve our operations. We expect, however, that we will be able to effect the necessary changes in a gradual and manageable fashion through normal employee attrition.

The remainder of the increase for our Parkersburg facility for fiscal year 1984 ($966,000) is to meet anticipated increases in costs for salaries and benefits for our employees, space rental charges, support services and other miscellaneous operating expenses.

I appreciate your interest in our Parkersburg facility and will keep you informed in the event we should plan any significant changes in this facility.

QUESTIONS SUBMITTED BY SENATOR DENNIS DECONCINI

PROPOSED MERGER OF THE SALARIES AND EXPENSES AND INTERNATIONAL AFFAIRS ACCOUNTS

QUESTION: Once again you have attempted to combine the International Affairs account with the Office of the Secretary activities, under one account entitled "Office of the Secretary, Salaries and Expenses". As you know, the Congress has recommended that these two accounts be separate and probably will do so again this year. What is the specific rationale for combining these two distinct activities under one account? What savings, if any would you realize by doing so?

ANSWER: This question suggests that the Office of the Secretary is separate from an "Office of International Affairs". In fact, the Office of the Secretary is a single, integrated staff arm of the Secretary responsible for development of economic policy and oversight of the Treasury bureaus. At the present time, this organization is funded by two separate appropriations, the Office of the Secretary - Salaries and Expenses account and the Office of the Secretary - International Affairs account.

Six major functions are conducted within the Office of the Secretary. These include:

1. general economic and tax policy development and bureau oversight;
2. the activities of the Treasury's Inspector General;
3. international financial activities;
4. oversight of Departmental administrative activities;
5. maintenance and operations of the Main Treasury Building and Annex; and
6. major repairs and improvements to the Main Treasury and Annex.

All six of these major functions are the responsibility of the Office of the Secretary. However, one major function -- the international financial activity -- is funded entirely through a separate appropriation. The remaining activities are funded primarily through the Salaries and Expenses account with smaller amounts available from the International Affairs account to support international aspects of their responsibilities. Given the fact that all the staff involved in these activities are part of a single organizational structure, that they report to the same officials, that they work as a coordinated body toward the accomplishment of the major missions of the Office of the Secretary and that virtually all of them even work in the same building, we believe that a single account structure is more appropriate than the present structure.

In practical terms, the merger that we are seeking is an attempt to remedy an accounting and planning problem. It has no organizational implications whatsoever. As you know, the implementation of approved budgets is governed by an extensive body of laws and rulings of the Comptroller General requiring a complete separation of accounting and control functions by appropriation. Since programmatic and budget planning must correspond with accounting structures, the presence of two separate appropriations within the Office of the Secretary creates unnecessary burdens in our planning process. An office such as our Office of Tax Policy, for example, cannot plan a single budget for its activities. It must develop two separate budgets segregating its international tax activities from its domestic tax activities. If an unanticipated crisis arises that could be resolved by a shift of resources from their domestic to their international activities such an action would be prohibited by law as an augmentation of an appropriation.

Our major concerns in eliminating the anomaly of a separate appropriation account within the Office of the Secretary are:

-- to improve systematic planning and control within the Office of the Secretary;

-- to improve the ability of the Secretary to respond to unanticipated needs; and

-- to eliminate the duplicative accounting and other paperwork that must be generated by virtue of having a separate appropriation within the Office of the Secretary.

When we first submitted this proposal in the 1983 budget, we estimated that merging these accounts would save a minimum of over 6,000 staff hours of work and an estimated $100 thousand. Although the Congress did reduce these savings from our budget, they did not approve the merger of the accounts.

TRANSFER OF INSPECTOR GENERAL FUNCTIONS

QUESTION: I also notice on page OS-3 of your justifications that you plan to transfer 74 positions and $2,831,000 from four (4) Treasury bureaus to the Office of the Secretary account for Inspector General functions. I am informed by your budget office that this transfer will be accomplished in fiscal year 1983 and that this transfer was done under authority of the Reorganization Plan of 1950. Was the Committee notified of this transfer of funds between the four bureau appropriation accounts and the Office of the Secretary account? If not, why not?

ANSWER: The House and Senate Appropriations Committees were informed about and involved in shaping the Department's consolidation of internal audit resources from its non-law enforcement bureaus into the Office of the Inspector General. The Department informed the relevant committees and subcommittees of its plans in June, 1982. At that time, letters were sent from the Deputy Secretary of the Treasury to the Chairmen of the House and Senate Appropriations Subcommittees respectively with jurisdiction over Treasury.

As originally conceived, the consolidation would have transferred internal audit units from all of Treasury's components, except IRS and limited internal investigative resources from its law enforcement bureaus, (Customs, ATF, and Secret Service), into the Office of the Inspector General. However, as a result of extensive discussions with the subcommittees and their staffs, a decision was made by Congress to limit the scope of the planned consolidation. The law enforcement bureaus were excluded, and only those auditors in the Department's non-law enforcement bureaus were transferred to the Office of the Inspector General. This limitation was specified through language in the Supplemental Appropriations Act for Fiscal Year 1982, which barred the Department's proposed transfer of resources from the Customs Service, bureau of Alcohol, Tobacco and Firearms, and the Secret Service. The budget request reflects the implementation of the limited consolidation.

IMPACT OF DISALLOWING PROPOSED INCREASES

QUESTION: Your budget request for the Office of the Secretary, Salaries and Expenses, is $69,949,000 or approximately 18% over the combined Office of the Secretary and International Affairs budgets for fiscal year 1983 and 22% when you exclude pending supplementals. What would be the specific effect on your operations under the Office of the Secretary if we were to hold you to the Presidentially-prescribed 4.8% increase for all non-defense discretionary accounts? Be specific and tell us exactly what you would not be able to do in fiscal year 1984.

ANSWER: An increase of 4.8% over the proposed 1983 funding level would permit an adjustment of approximately $3.0

million for 1984. Clearly, our first requirement would be to fund anticipated net inflationary increases on our existing programs in the amount of $2.1 million.

While all of the increases we have requested are of high priority, a number of them could not be funded effectively at a reduced rate. The following items would have to be foregone in the budget:

-- The completion of the centralization of the Inspector General activities within the Office of the Secretary would have to be re-examined. Postponement, however, would have no real effect on Government outlays, since the activities would be supported from non-appropriated funds in existing bureau budgets.

-- Data processing increases ($1.6 million) would have to be set aside. Since this would disrupt our efforts to automate various functions in a coherent and systematic manner, it would have the long-term effect of hampering improved work productivity and would contribute to the inefficient acquisition and use of computer equipment in the future.

-- The proposed repairs and improvements to the Main Treasury Building ($900 thousand) could not be accomplished. This project is designed to stop the progressive deterioration of the exterior stonework of the building. Assuming that the Treasury Building will continue in use as an office and remain an historic landmark, the real issue is not whether this work should be done but when it should be done and how much we will have to pay for it. If the work is not done in 1984, it will have to be done in 1985 at a higher cost, because of both inflation and the progressive nature of the deterioration.

-- It would also be necessary for us to forego either our plans for increased overseas staff rotation ($164 thousand) or funding for additional confidential expenditures ($100 thousand). In the case of overseas staff rotation, this would have the effect of continuing to keep our attaches stationed overseas an excessive length of time, reducing their exposure to mainstream Treasury policy concerns and preventing our junior staff from having the important experience of serving at an embassy abroad. Eliminating the funding for confidential expenditures would prevent us from operating as aggressively as we should in the important law enforcement areas.

MANAGEMENT STUDIES

QUESTION: I notice that you are requesting an increase of $1,827,000 and 4 positions under Departmental Policy and Administrative Services -- an increase of about

10%. On page OS-6 of your budget justifications you indicate that $300,000 would be spent for contractual studies dealing with improvements in the overall management of the Department. In view of the President's directive to hold non-defense discretionary spending increases to 4.8%, couldn't you postpone this $300,000 item for studies and bring your percentage increase request more into line with the President's wishes? What would be the specific result if these studies were delayed for one year?

ANSWER: The $300,000 requested in the budget will be used for contractual studies on improved management operations throughout the Department ($271 thousand) and for outside investigation and adjudication of employment discrimination complaints ($29 thousand).

The funding we have requested for management studies will be used to improve Treasury operations in five basic areas:

-- improved methods of cash management;

-- identification of alternatives to existing labor-intensive Treasury operations;

-- analysis of the cost-effectiveness of various Treasury activities;

-- development of alternative resource allocation strategies for the Department; and

-- development of alternative debt collection methods.

The cash management studies will be designed to identify improvements that can be made in the management of our cash flow. Since Government collections total over $500 billion each year, even relatively small improvements in our management in this area can pay important dividends, either through expanded revenue collection or decreased interest payments on borrowing requirements.

Studies of alternatives to labor-intensive programs will be aimed at operating areas where transition to automated methods can improve efficiency and accuracy while reducing costs. Examples include the issuance of Treasury bills, securities and savings bonds, application of optical character reading equipment to income tax returns, and so on.

At present, the Department does not have a sufficient number of research staff necessary to undertake comprehensive reviews of the cost-effectiveness of various Treasury operations. By conducting comparative examinations of Treasury operations, new ideas and methods can be developed to improve operations in all bureaus. The proposed studies to examine program effectiveness will be aimed at this problem.

In a similar vein, studies need to be done to determine the optimal levels of resources that should be allocated to various revenue-producing Treasury programs. These studies will concentrate on analyzing the relationship between resources used and revenues generated through their use.

The final area of management studies will involve undertaking a comprehensive analysis of existing and alternative methods of debt collection.

Given the nature of the projects that I have outlined above, it seems clear that they have the potential of paying back to the Government, over the long term, many times more than their initial investment in terms of greater operating efficiency, better effectiveness, more rational use of existing resources and improvements in cash and debt management.

As I have noted, we do not have the staff available within the Department to undertake these management studies at existing resource levels. Development of a staff capable of performing this work would cost significantly more than the amounts we have requested.

The funds we have requested for contractual handling of employment discrimination complaints are a more cost-effective method of improving our ability to investigate complaints and to resolve problems. We do not have sufficient staff at present to handle these issues as efficiently as needed, and the alternative to this request would be to hire additional staff at a cost quite in excess of the amount requested in this budget.

Funds for these studies were requested in the 1982 and 1983 budgets. Although they were looked on favorably by the Congress in each of those years, funding restrictions under the various Continuing Resolutions have prevented us from initiating any action. A further delay in receiving funds for these projects will prevent us from examining these important issues and keep us from realizing the potentially significant managerial and financial benefits that they are designed to achieve.

TRAVEL FOR THE OFFICE OF THE SECRETARY

QUESTION: In examining your object class tables on page OS-11 of your budget book, I notice that your travel budget has increased dramatically since fiscal year 1982. In fiscal year 1982 you spent $759,000 for travel and transportation of persons. This jumped by 23.5% to $938,000 in fiscal 1983 and would jump another 52.8%

(+$496,000) next year, to $1,434,000. Your "transportation of things" budget has also skyrocketed in two years -- from $257,000 in fiscal year 1982 to $405,000 in fiscal year 1984 -- a jump of 57.7% over two years. What are the specific reasons for these large percentage increases in travel and transportation of things in the Office of the Secretary/International Affairs accounts? And what would be the specific effect on your operations if we were to allow you one-half of your respective travel requests in 1984?

ANSWER: Because of the extensive budget reductions that we have experienced in recent years, it became necessary for us to reduce significantly the level of funding available for staff and Secretarial travel, particularly in support of the important international financial activities of the Treasury Department. The following table illustrates the reductions that we have implemented since 1982:

(dollars in thousands)

	1982	1983	1984
Initial budget requests to Congress...	$1,643	$1,175	$1,434
Current budget request to Congress....	759*	938	1,434
Variance of current budget levels from those initially sought from Congress..	$ 884	$ 237	$ ---

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*Reflects actual expenditures in this fiscal year.

As the table shows, our initial plan for travel in 1982 contained a request of over $1.6 million for travel. By severely restricting staff travel and, through fortunate circumstances, including reduced requirements to fund major overseas travel by the Secretary we managed to reduce our travel requirements in 1982 by 54 percent below the initial request. In our current budget we have revised 1983 spending requirements 20 percent below our original request to Congress. The budget we have requested for 1984 reflects the fact that growing difficulties in the area of international finance will require an expanded level of staff involvement and a greater likelihood of the need for the Secretary to travel overseas to meet with his counterparts on matters of importance to the international financial system.

When examining these travel costs, it must be kept in mind that the greatest part of them are related to international travel. While costs in recent years for domestic travel have not been subject to strong inflationary pressures, increased costs have been passed on by airlines for international travel. For example, between 1980 and 1982 the cost of one round-trip flight between Washington and Paris rose 56 percent; to Tokyo, the increase was 37 percent; to Geneva, Switzerland, the increase was 34 percent; to Rome, the increase was 49 percent; and to Ottawa, the increase was 63 percent. While part of the increase we have sought is to assist us in fulfilling our growing international responsibilities, a significant portion of the increase in recent years has been driven by inflation.

With regard to expenses for "transportation of things" the entire increase we have requested is related to our proposed initiative in FY 1984 to increase the frequency of rotation for staff located overseas. As we have noted on pages OS-4 and 5 of our budget, our current rotational system for employees stationed overseas permits rotation on an average of once every four years. The lack of funding for transportation of household goods has hampered us in this area. By reducing the average length of tours-of-duty to approximately 2.5 years, we will be able to keep overseas staff more informed on mainstream Treasury policy and permit our junior staff to gain the valuable experience of serving in these important posts overseas.

Reducing the request for travel and transportation of things to half of the level sought -- from $1.8 million to $900 thousand -- would have a substantial negative impact on the regular operations of the Treasury Department. The funds that we spend in this area are used for high-level staff support of the Secretary in his role as a major policy advisor to the President. Reducing funding would eliminate a significant amount of staff travel related to bilateral and multilateral discussions and negotiations involving international monetary affairs, trade financing, development financing, tax treaties, meetings of the various international financial organizations, preparatory work for economic summits, and so on. Such a withdrawal of involvement on the part of the United States from the international economic system could hardly take place without a corresponding reduction in our ability to influence economic affairs, both at home and abroad.

EXECUTIVE TRAINING PROGRAMS

QUESTION: I notice that you are asking for $50,000 for executive level training in fiscal year 1984 under your Departmental Policy and Administrative Services sub-account. You indicate on page OS-6 that these funds will be used to develop an in-house training program for senior executives. Isn't this the type of item that could be eliminated in a year when the President is trying to hold down discretionary spending and what would be the specific effects on your ability to manage the Department if we were to eliminate this piece of your 1984 budget?

ANSWER: One of the more troubling areas of our budget is the less-than-adequate funding that has been available for training opportunities for employees, particularly our senior managers.

The nature and complexity of the responsibilities of our senior staff and mid-level managers is comparable to anything found in the private sector. They are responsible for managing hundreds of billions of dollars and tens of thousands of employees and for implementing crucial programs in an environment which, by its very nature, requires a high level of skill, talent and dedication. Yet, by comparison with the private sector, we make little effort to insure that the skills of our personnel are kept up to date.

INTERNAL REVENUE SERVICE

STATEMENT OF ROSCOE L. EGGER, JR., COMMISSIONER

ACCOMPANIED BY:
JAMES I. OWENS, DEPUTY COMMISSIONER
KENNETH W. GIDEON, CHIEF COUNSEL
JOEL GERBER, DEPUTY CHIEF COUNSEL
DONALD E. BERGHERM, ASSOCIATE COMMISSIONER (OPERATIONS)
CHARLES H. BRENNAN, ACTING ASSOCIATE COMMISSIONER (POLICY AND MANAGEMENT)
DEAN E. MORROW, ACTING ASSISTANT COMMISSIONER, (COMPUTER SERVICES)
STANLEY GOLDBERG, ACTING ASSISTANT COMMISSIONER (RETURNS AND INFORMATION PROCESSING)
JOSEPH F. KUMP, FISCAL MANAGEMENT OFFICER
CORA P. BEEBE, ASSISTANT SECRETARY (ADMINISTRATION) DEPARTMENT OF THE TREASURY

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. We are happy to have for our next witnesses the Commissioner of the Internal Revenue Service, Roscoe L. Egger.

Thank you for coming, Mr. Egger. Sorry we delayed this hearing. I know you have a lot going on at this time of the year. You also have a very distinguished panel with you. Please introduce your group if you will.

Mr. EGGER. Good afternoon.

I'd like to do that, Mr. Chairman, if I might.

First, let me introduce Deputy Commissioner Jim Owens; Ken Gideon, Chief Counsel; and Joel Gerber, our Deputy Chief Counsel; Associate Commissioner of Operations, Don Bergherm; Acting Associate Commissioner for Policy and Management, Charlie Brennan; and Acting Assistant Commissioners Stan Goldberg for Returns and Information Processing and Dean Morrow for Computer Services; and our Fiscal Management Officer, Joe Kump.

Also with us today from the Treasury Department is Cora Beebe, Assistant Secretary for Administration. Several of our witnesses are appearing for the first time. With your permission, I will submit their biographical statements for the record.

Mr. Chairman, I have a short statement which I can read into the record. I'd be happy to submit our full statement for the record.

PREPARED STATEMENT

Senator ABDNOR. Let's put it this way, we will put your full statement in the record and you can go ahead with your brief presentation.

Mr. EGGER. All right.

[The statement follows:]

STATEMENT OF ROSCOE L. EGGER

Mr. Chairman and members of the committee, I am pleased to be here today to present the proposed budget for fiscal year 1984 for the Internal Revenue Service. First, I would like to introduce my associates: Deputy Commissioner, Jim Owens; Ken Gideon, our Chief Counsel and Joel Gerber, Deputy Chief Counsel; Associate Commissioner Don Bergherm for Operations, Acting Associate Commissioner Charlie Brennan for Policy and Management; Acting Assistant Commissioners Stan Goldberg for Returns and Information Processing and Dean Morrow for Computer Services; and our Fiscal Management Officer, Joe Kump. Also with us today representing the Treasury Department are Cora Beebe, Assistant Secretary for Administration, and Art Kallen, Director of the Department's Office of Budget and Program Analysis. Several of our witnesses are appearing for the first time. With your permission, I will submit their biographical statements for the record.

When we met with you last year, Mr. Chairman, we presented a budget request for the current fiscal year which emphasized a long-term approach to effective tax administration. I would like to thank you and the committee for authorizing the additional staff we requested for fiscal year 1983 to enforce the tax law, and for providing funds to begin our ADP and systems modernization.

These two initiatives are continued and expanded in next year's budget. They are crucial to the efficiency and equity of the tax system and the collection of revenue. As Commissioner, I have set productivity through improved technology, tax compliance, and the fair and equitable treatment of taxpayers as priority items.

In fiscal year 1983, taxpayers are now receiving the same level of tax assistance as last year. I share with you the need to help taxpayers meet their filing requirements and resolve their tax account problems. Our goal is to continue taxpayer service in the most cost-effective manner possible. The budget for fiscal year 1984 will provide the programs and means to inform, educate, and assist taxpayers at less cost.

Our proposed budget for fiscal year 1984 provides for average employment of about 92,000 and some $3.3 billion. This is an increase of over 1,300 average positions and $248.5 million above the level authorized in fiscal year 1983.

A major new responsibility for the Internal Revenue Service is implementation of the recently enacted Tax Equity and Fiscal Responsibility Act of 1982. Some 1,775 average positions and $62 million are being requested to meet additional workload in fiscal year 1984. This law contains major new requirements which impact on almost all aspects of tax administration. Significant provisions include withholding on interest and dividends; reporting on payment of interest, sale of commodities and securities, and tip income; the addition of penalties for substantial understatement of tax liability, filing improper or frivolous returns, failure to file information returns, and supply proper taxpayer identification; and significant amendments to virtually all corporate and H.R. 10 (Keogh) pension plans. The revenue estimates submitted in the President's budget assume implementation of these provisions by the Internal Revenue Service. In fiscal year 1984, it is estimated that $9 billion will be collected as a result of enhanced voluntary compliance and direct enforcement of the Tax Equity and Fiscal Responsibility Act.

A second major objective is to continue the effort begun last year to modernize the Service's ADP systems and improve the efficiency and effectiveness of operations by automating office procedures. Almost 600 additional average positions and $93 million are being requested for this purpose. Over half this request, $51 million, continues projects approved by this committee last fall. These include replacement of obsolete and inadequate computer equipment used to process tax returns, issue refunds, and account for the revenue; the automated collection system to improve collecting unpaid tax accounts; the automated examination system which modernizes our audit process and improves the quality and efficiency of examination; optical character recognition for scanning Federal tax deposits and remittances; and management information and office automation. New efforts total $42 million and include such items as testing laser optical technology for storing and retrieving tax returns; improving cash management; modernizing of outmoded payroll, budget and accounting systems; streamlining the cost of training employees; and starting a major redesign of the tax processing system. These efforts to modernize and automate IRS activities are essential to effective and efficient tax administration in the coming decade. With your permission, I would like to provide for the record a summary of our plans in this area.

Another major objective is that of improving tax enforcement. In fiscal year 1983, you authorized 5,225 additional enforcement staff to collect unpaid tax accounts, examine corporations and high income individuals, and reduce backlogs of appeals awaiting settlement. This effort has improved the Service's ability to deal in a firm and fair way with the problems of noncompliance. In fiscal year 1984, the proposed budget provides some 275 additional average positions and $22 million to follow through on this effort. Overall, this emphasis on tax enforcement will result, in our judgment, in greater equity for all taxpayers and will account for revenue receipts of $2.4 billion in fiscal year 1984.

Finally, an additional 175 average positions and $10 million is included in the budget to participate in the President's task forces against organized crime and drugs. After printing the budget, the Treasury Department, in conjunction with the Department of Justice, has decided to shift resources among the three participating bureaus, that is, Customs Service, Bureau of Alcohol, Tobacco and Firearms, and Internal Revenue Service. As a result, IRS will require an additional 45 average positions and $2.4 million for this effort, for a total increase of 220 average positions and $12.4 million. The Assistant Secretary for Enforcement and Operations will address this shift in resources among the Treasury bureaus when he appears before this committee next week.

The balance of our request is necessary to maintain essential levels of IRS programs. This includes covering increased costs of operations affecting critical programs in fiscal year 1984. The specifics of our proposed program levels for fiscal year 1984 are more fully detailed in my prepared statement.

Now before closing, Mr. Chairman, I would like to note the new appropriation structure in which the budget is presented. The three appropriations represent the basic functions of tax administration—processing tax returns, determining tax liabilities, and enforcing the tax law. By defining these functions and associating with them those programs which directly affect their accomplishment, the administration and the Congress can more accurately determine appropriate levels of resources. I believe this new structure will help us to focus attention on the essential elements of tax administration. The Service will continue to prepare and submit detailed budget justifications and will provide this committee with any additional information it needs to review our operations.

PROCESSING TAX RETURNS AND EXECUTIVE DIRECTION

Returns Processing and Revenue Accounting

This activity provides funds for processing tax returns, issuing refunds and notices of tax due, accounting for revenues, and processing information returns for document matching.

The requested FY 1984 resource level for Returns Processing and Revenue Accounting totals 25,228 average positions and $771.9 million, an increase of 422 average positions and $58.9 million over FY 1983. With the resources requested, we will receive and process almost 169 million tax returns, issue 76 million refunds to individual taxpayers and process over 700 million information returns for matching.

The resources requested include (1) 430 average positions and $14.3 million to implement provisions of the Tax Equity and Fiscal Responsibility Act of 1982; (2) 314 average positions and $6.3 million to pay the National Archives and Records Service for storing and retrieving tax returns; and (3) 643 average positions and $11.9 million to process 4.4 million additional tax returns and related schedules, and 700,000 additional supplemental documents; and to issue notices, tax bills and refunds promptly. This increase in staffing can be offset by saving almost 1,000 average positions and $19 million by:

- replacing outmoded manual research and microfilm operations with a modern automated system
- automating revenue accounting and the power of attorney file
- increasing productivity in service center operations.

Computer Services

The Computer Services activity provides comprehensive data processing support for the Service, including the development, acquisition, installation, and evaluation of computer systems. The requested FY 1984 resource level totals 1,841 average positions and $209 million, an increase of 280 average positions and $38.5 million. These additional resources are necessary to continue the effort initiated in FY 1983 to modernize automated data processing systems and office procedures.

The proposed increase includes 141 average positions and $32.2 million to improve automated support for tax collection and enforcement operations. Projects include the redesign of the tax processing systems, the automation of the examination process, the replacement of the direct data entry system with a distributed input system, and the enhancement of the integrated data retrieval system.

The requested increase also includes 38 average positions and $5.9 million to continue to replace obsolete and inadequate computer equipment in the service centers; 61 average positions and $3.5 million for the development and maintenance of computer systems to implement provisions of the Tax Equity and Fiscal Responsibility Act; 46 average positions and $13.1 million for office automation and management information systems; 28 average positions and $7.4 million for other projects such as computer managed instruction and the modernization of budget and accounting systems; and $1.4 million for inflationary cost increases. These increases are partially offset by a decrease of 34 average positions and $25.0 million for costs not recurring in FY 1984.

Executive Direction

The Executive Direction function includes myself, my Deputy, the Chief Counsel and his Deputy, the three Associate Commissioners, and the Assistant Commissioner (Inspection). Also included are the Equal Employment Officer, the Taxpayer Ombudsman, the Assistants to the Commissioner for Public Affairs and Legislative Liaison, and their immediate staffs .

The budget for Executive Direction totals 132 average positions and $7.6 million, the same staffing level as authorized in FY 1983, with a $.3 million increase to cover mandatory cost increases.

EXAMINATION AND APPEALS

Examination

I would like now to comment briefly on our Examination program. Examination of returns is one of the primary means through which full compliance is encouraged, errors corrected and public confidence in fair tax administration maintained.

Requested resources for the Examination program in FY 1984 total 30,073 average positions and $1,043.4 million, a net increase of 664 average positions and $62.1 million above the level for FY 1983.

At the requested program level, an increase in Examination staffing of 2.3 percent, we expect to audit 1.6 million tax returns and to make almost 800,000 service center contacts — a total of almost 2.4 million returns. In addition, we will review 500,000 cases of questionable withholding (Forms W-4).

Last fall, Congress added 1,000 average positions and $ 25 million to increase the number of audits of large corporations and high income individual tax classes where underreporting of tax liability is most apparent. In FY 1984, these resources should result in assessing some $465 million in additional taxes.

To implement the provisions of the Tax Equity and Fiscal Responsibility Act of 1982, 657 additional average positions and $23.1 million are being requested. These resources will allow revenue agents and tax auditors the additional time needed during an examination to determine the applicability of new penalty provisions (understatement of tax liability, filing improper or frivolous returns, civil fraud, failure to file information returns, and supply proper taxpayer identification) on over 400,000 tax returns. In addition, Examination will conduct a study of some 3,000 tax returns to insure compliance with the provision for reporting payments for consumer services and direct sales.

Appeals and Tax Litigation

This activity involves handling those cases in which taxpayers disagree with examination results. The Appeals function provides an independent administrative review with the objective of reaching impartial settlement. The Tax Litigation function represents the Service in judicial proceedings that cannot be resolved through administrative appeals.

Appeals and Tax Litigation totals 3,621 average positions and $150.6 million in FY 1984, an increase of 377 average positions and $22.8 million. Of this increase in employment, 102 average positions are being requested to implement the Tax Equity and Fiscal Responsibility Act. Another 275 average positions are being requested to follow through on appeals resulting from the increase in examination and to reduce backlogs in the Tax Court. Over $150 million in additional tax deficiencies and penalties will be assessed.

Employee Plans and Exempt Organizations

Resources requested for Employee Plans and Exempt Organizations total 2,607 average positions and $93.1 million, an increase of 521 average positions and $17.3 million from the FY 1983 level. The additional staff will handle, over a three year period, the review of amendments to approximately 850,000 retirement plans required by the Tax Equity and Fiscal Responsibility Act.

INVESTIGATIONS, COLLECTION AND TAXPAYER SERVICE

Tax Fraud Investigations

Tax Fraud Investigations, a program responsible for enforcing the criminal tax codes totals 4,605 average positions and $189.8 million, an increase of 289 average positions and $16.7 million from the FY 1983 level. This increase in resources includes 175 average positions and $10 million for participation in the President's task forces against drugs and organized crime. With the reallocation of resources among the three Treasury bureaus, IRS will receive an additional 45 average positions and $2.4 million. In addition, some 69 average positions are required to continue efforts to prevent and detect fraudalent refund claims. The remaining 45 positions are needed to compile, through automated data, information to conduct investigations of tax fraud.

Collection

The Collection activity in FY 1984 totals 18,482 average positions and $625 million, a decrease of 224 average positions and an increase of $39.7 million from the FY 1983 level. The total employment level includes the 4,000 average positions which you approved last fall to reduce the growing number of unpaid tax accounts and to secure delinquent tax returns. To continue this effort, some $7.6 million in additional salary funds are being requested to enable personnel to work overtime in order to collect about $100 million in back taxes. The Service will, of course, conduct these operations in accord with provisions of the Fair Debt Collection Practices Act.

The reduction of 224 average positions results from the implementation of the automated collection system which provides state-of-the-art computer and telephone technology to improve office operations and accelerate collection of taxes.

Taxpayer Service

The budget for Taxpayer Service totals 3,533 average positions and $130.9 million. Although staffing and funds are reduced from the FY 1983 level, the program will result in a more cost effective and streamlined system for providing essential tax information to the public. In addition to responding to taxpayer inquiries on accounts, we are emphasizing the use of pre-recorded tax information coupled with an out-reach program which expands the use of walk-in services to the public through more accessible sites at more accessible hours.

The Service will continue to use improved and more cost effective methods of providing tax information to the public. For example, televised tax clinics to aid large numbers of taxpayers in the preparation of their returns, as well as targeted broadcasts to certain groups such as Spanish speaking and elderly taxpayers, will be continued. Forms and free publications will continue to be available for order by telephone. All taxpayer education programs, will be maintained at FY 1983 levels, and some programs, including Voluntary Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE), will be enhanced from FY 1983 levels.

Enforcement Litigation and Rulings

This activity, under the direction of the Chief Counsel, provides legal support for the Tax Fraud and Collection activities. The Service proposes a program level of 1,639 average positions and $70.4 million, an increase of 54 average positions and $4.1 million from FY 1983. These resources will be used to implement the Tax Equity and Fiscal Responsibility Act and to reduce the backlog of rulings and regulation projects.

Summary

In conclusion, I would like to stress that this budget request is a continuation of our efforts to make tax administration more efficient and cost effective through automation, strengthening tax enforcement, and refocusing taxpayer assistance.

One of my key objectives is to move the Internal Revenue Service ahead in modernizing its ADP system and improving the efficiency of our field offices. We can accomplish this by introducing new systems and procedures that make use of technology.

Another major objective is improving tax enforcement. An equitable tax system requires that unreported tax be identified and assessed, and that unpaid tax be collected. In order to meet this objective, we are continuing the initiative begun in FY 1983 and expanding it by adding resources to reduce backlogs of unpaid tax accounts and tax disputes.

We also propose to address the enforcement problems of the "tax gap" with tools that you provided to us under the Tax Equity and Fiscal Responsibility Act. TEFRA makes our job of tax enforcement easier, by withholding and reporting, instead of substituting large additional enforcement staff.

INTERNAL REVENUE SERVICE
Summary of Staffing and Amounts ($000's)
Fiscal Year 1984 (Revised Structure)

	FY 1983		FY 1984		Difference	
	Ave. Pos	Amt	Ave. Pos.	Amt	Ave. Pos.	Amt
Processing Tax Returns and Executive Direction						
Returns Processing and Revenue Accounting	24,806	712,996	25,228	771,882	+ 422	+ 58,886
Computer Services	1,561	170,500	1,841	208,980	+ 280	+ 38,480
Executive Direction	132	7,301	132	7,617	--	+ 316
Total	26,499	890,797	27,201	988,479	+ 702	+ 97,682
Examination and Appeals						
Examination	29,409	981,287	30,073	1,043,395	+ 664	+ 62,108
Appeals and Tax Litigation	3,244	127,797	3,621	150,551	+ 377	+ 22,754
Employee Plans and Exempt Organization	2,086	75,763	2,607	93,080	+ 521	+ 17,317
Total	34,739	1,184,847	36,301	1,287,026	+ 1,562	+102,179
Investigation, Collection and Taxpayer Service						
Tax Fraud Investigations	4,316	173,064	4,605	189,795	+ 289	+ 16,731
Collection	18,706	585,289	18,482	624,991	- 224	+ 39,702
Taxpayer Service	4,519	142,779	3,533	130,897	- 986	- 11,882
Enforcement Litigatin and Rulings	1,585	66,236	1,639	70,363	+ 54	+ 4,127
Total	29,126	967,368	28,259	1,016,046	- 867	+ 48,678
Total, Appropriated	90,364	3,043,012	91,761	3,291,551	+ 1,397	+248,539
Reimbursements	875	--	787	--	- 88	--
Grand Total	91,239	3,043,012	92,548	3,291,551	+ 1,309	+248,539

INTERNAL REVENUE SERVICE
Analysis of Staffing Increases (Average Positions)
Fiscal Year 1984

Budget Activity	FY 1983	Adjustments TEFRA	ADP Systems Modern	Drug Enforcement	Tax Enforcement	Other	Total	FY 1984
Returns Processing and Revenue Accouting	24,806	430	69	--	--	-77	422	25,228
Computer Services	1,561	61	253	--	--	-34	280	1,841
Executive Direction	132	--	--	--	--	--	--	132
Examination	29,409	657	--	--	--	7	664	30,073
Appeals and Tax Litigation	3,244	102	--	--	275	--	377	3,621
Employee Plans and Exempt Organizations	2,086	481	--	--	--	40	521	2,607
Tax Fraud Investigations	4,316	--	--	175	--	114	289	4,605
Collection	18,706	--	275	--	--	-499	-224	18,482
Taxpayer Service	4,519	5	--	--	--	-991	-986	3,533
Enforcement Litigation and Rulings	1,585	39	--	--	--	15	54	1,639
Total, Appropriated	90,364	1,775	597	175	275	-1,425	1,397	91,761
Reimbursements	875	--	--	-88	--	--	-88	787
Grand Total	91,239	1,775	597	87	275	-1,425	1,309	92,548

Mr. Chairman, my colleagues and I will be pleased to try and answer any questions you or the members of the subcommittee may have.

BIOGRAPHY OF CHARLES H. BRENNAN

Charles H. Brennan became Acting Associate Commissioner for Policy and Management of the Internal Revenue Service in July 1982. The policy and management organization consists of three Assistant Commissioner areas: human resources; planning finance and research; and support and services.

Mr. Brennan was born on June 24, 1936, in Syracuse, N.Y. He received a Bachelor of Business Administration (B.B.A.) degree in 1957 from Lemoyne College in Syracuse.

In 1957, Mr. Brennan joined the Internal Revenue Service in Syracuse as an internal revenue agent. He advanced in supervisory internal revenue agent positions in New York, Brooklyn, and Philadelphia. In 1970 he was chosen for the IRS executive selection and development program, which offers specialized training to employees who demonstrate executive potential. Upon completion of the program, Mr. Brennan was named assistant district director in Milwaukee. In 1971, he became assistant director of the Manhattan district. From 1973 to 1980, he was district director in New Orleans, Brooklyn, and Manhattan. In 1980, he became regional commissioner of the North-Atlantic region, where he will return following his detail as Acting Associate Commissioner for Policy and Management in the national office.

BIOGRAPHY OF DEAN E. MORROW

Dean E. Morrow is the Acting Assistant Commissioner for Computer Services of the Internal Revenue Service.

Mr. Morrow was born on January 18, 1929, in Topeka, Kans. He received a Bachelor of Business Administration (B.B.A.) degree in 1952 from Washburn Municipal University in Topeka.

In 1955, Mr. Morrow joined the Internal Revenue Service in Omaha, Neb. as an internal auditor. He advanced in managerial positions in Omaha and Kansas City. In 1966, he was chosen for the IRS executive selection and development program, which offers specialized training to employees who demonstrate executive potential. Upon completion of the program, Mr. Morrow was named assistant to the district director in St. Louis. In 1967, he became Assistant Service Center Director in Andover, Mass., and continued in managerial positions in the IRS in Kansas City, Austin, and the national office. In 1982, he became the Deputy Assistant Commissioner for Computer Services.

BIOGRAPHY OF STANLEY GOLDBERG

Stanley Goldberg is Acting Assistant Commissioner for Returns and Information Processing of the Internal Revenue Service.

Mr. Goldberg was born on June 20, 1926, in New York City. He received a Bachelor of Science degree in 1949 and a Master of Arts degree in 1950 from New York University.

In 1952, Mr. Goldberg began his Government service with the Civil Service Commission in Washington as an administrative and technical assistant. He joined the Internal Revenue Service in 1961 as a placement specialist in the national office and advanced to Director of the Training Division in 1967 and Director of the Taxpayer Service Division in 1974. In 1978, he was temporarily detailed to the position of district director in Reno.

In 1979, he was chosen for the IRS executive selection and development program, which offers specialized training to employees who demonstrate executive potential. Upon completion of the program, Mr. Goldberg was named Deputy Assistant Commissioner for Taxpayer Service and Returns Processing and in 1982 he became Deputy Assistant Commissioner for Returns and Information Processing.

FISCAL YEAR 1983

Mr. EGGER. Last year, we presented a budget request for the current fiscal year which emphasized a long-term approach to effective tax management. I would like to thank you and the committee for authorizing the additional staff we requested for fiscal year 1983 to enforce the tax law and for providing funds to begin our data processing and systems modernization.

These two initiatives are continued and expanded in next year's budget. They are crucial to the efficiency and equity of the tax system and the collection of revenue. As Commissioner, I have set productivity through improved technology, tax compliance, and the fair and equitable treatment of taxpayers as priority items.

In fiscal year 1983, taxpayers are now receiving the same level of tax assistance as last year. I share with you the need to help taxpayers meet their filing requirements and resolve their tax account problems. Our goal is to continue taxpayer service in the most cost-effective manner possible. The budget for fiscal year 1984 will provide the programs and means to inform, educate, and assist taxpayers at lower cost.

SUMMARY OF THE IRS BUDGET

Our proposed budget for fiscal year 1984 provides for average employment of about 92,000 and some $3.3 billion. This is an increase of over 1,300 average positions and $248.5 million above the level authorized in fiscal year 1983.

TAX EQUITY AND FISCAL RESPONSIBILITY ACT

A major new responsibility for the Internal Revenue Service is implementation of the recently enacted Tax Equity and Fiscal Responsibility Act of 1982. Some 1,775 average positions and $62 million are being requested to meet additional workload in fiscal year 1984. This law contains major new requirements which impact on almost all aspects of tax administration. The revenue estimates submitted in the President's budget assume implementation of these provisions by the Internal Revenue Service. In fiscal year 1984, it is estimated that $9 billion will be collected as a result of enhanced voluntary compliance and direct enforcement of the Tax Equity and fiscal Responsibility Act.

ADP AND SYSTEMS MODERNIZATION

A second major objective is to continue the effort begun last year to modernize the Service's ADP systems and improve the efficiency and effectiveness of operations by automating office procedures. Almost 600 additional average positions and $93 million are being requested for this purpose. Over half this request, $51 million, continues projects approved by this committee last fall. New efforts total $42 million and include such items as testing laser optical technology for storing and retrieving tax returns. With your permission, I would like to provide for the record a summary of our plans in this area.

[The information follows:]

INTERNAL REVENUE SERVICE—ADP AND SYSTEMS MODERNIZATION INCREASES—FISCAL YEAR 1984

PROJECTS APPROVED IN FISCAL YEAR 1983

Improve tax collection and enforcement—$31 million. Install a system designed to accelerate the collection of unpaid taxes; and begin implementation of a system that will increase productivity and improve the quality of examinations.

Improve the processing of tax returns—$15 million. Replace obsolete and inadequate computer equipment in the 10 service centers; apply optical technology to Federal tax deposits; install new data entry equipment to input tax data; and replace terminals to retrieve tax data.

Improve management information in support of tax collection—$5 million.

PROJECTS TO BE INITIATED IN FISCAL YEAR 1984

Improve the processing of tax returns—$27 million. Install technically advanced terminals to retrieve tax data; start replacing remittance processing equipment; design a new tax processing system; and test laser optical technology to store and retrieve tax records.

Improve office procedures in support of tax collection—$15 million. Acquire mini/mico computers through a single contract; modernize budget and accounting operations by developing a state-of-the-art computer system; install a computer managed instructional system; and centralize inventory sites for the distribution of tax forms and publications.

TAX ENFORCEMENT

Mr. EGGER. Another major objective is that of improving tax enforcement. In fiscal year 1983, you authorized 5,225 additional enforcement staff to collect unpaid tax accounts, examine corporations and high income individuals, and reduce backlogs of appeals awaiting settlement. This effort has improved the Service's ability to deal in a firm and fair way with the problems of noncompliance. In fiscal year 1984, the proposed budget provides some 275 additional average positions and $22 million to follow through on this effort. Overall, this emphasis on tax enforcement will result, in our judgment, in greater equity for all taxpayers and will account for revenue receipts of $2.4 billion in fiscal year 1984.

DRUGS AND ORGANIZED CRIME

Finally, an additional 175 average positions and $10 million is included in the budget to participate in the President's task forces against organized crime and drugs. After printing the budget, the Treasury Department, in conjunction with the Department of Justice, has decided to shift resources among the three participating bureaus (Customs Service, Bureau of Alcohol, Tobacco and Firearms, and Internal Revenue Service). As a result, IRS will require an additional 45 average positions and $2.4 million for this effort, for a total increase of 220 average positions and $12.4 million.

The balance of our request is necessary to maintain essential levels of IRS programs. This includes covering increased costs of operations affecting critical programs in fiscal year 1984. The specifics of our proposed program levels for fiscal year 1984 are more fully detailed in my prepared statement.

APPROPRIATION RESTRUCTURE

Before closing, Mr. Chairman, I would like to note the new appropriation structure in which the budget is presented. The three appropriations represent the basic functions of tax administration—processing tax returns, determining tax liabilities, and enforcing the tax law. By defining these functions and associating with them those programs which directly affect their accomplishment, the administration and the Congress can more accurately determine appropriate levels of resources. I believe this new structure will help us to focus attention on the essential elements of tax administration. The Service will continue to prepare and submit detailed budget justifications and will provide this committee with any additional information it needs to review our operations.

Mr. Chairman, my colleagues and I will be pleased to try and answer any questions you or the members of the subcommittee may have.

SURFACE TRANSPORTATION ACT

Senator ABDNOR. Thank you, Commissioner.

Before we go into it, I want to ask you about one situation I ran into this morning. It was at the subcommittee meeting on Transportation. We had the Commissioner up here. We were talking about the gas tax as part of the recently passed highway bill. The Department of Treasury is doing a study to see where we go from here.

I believe the IRS is completing a study on collections of the highway user fee taxes.

Could you or any of your associates comment?

What it is, it is a Surface Transportation Act.

Mr. EGGER. Yes, sir. I know the act you are talking about.

Senator ABDNOR. I will tell you, I may submit these questions for the record because your people are working on——

Mr. EGGER. We probably are assisting the Treasury Office of Tax Analysis.

Senator ABDNOR. Particularly on the collecting of the fees, it seems to be dragging on. The point I want to make is that I am not particularly happy with the legislation's present form. But we are waiting for some studies to come in before any changes can be made.

As far as the collections are concerned, we are talking about the same form of taxes we had before. All you have is a higher fuel tax, a higher excise tax, and a users fee. Today truckers pay $240 a year. In 4 years that total will increase to $1,900 annually. It's a whole new program.

And apparently nothing yet has come in from the Treasury, so I may submit some questions for the record.

Mr. EGGER. I'd be happy to try to supply answers.

WITHHOLDING ON INTEREST AND DIVIDENDS

Senator ABDNOR. Very fine.

Let me ask the million dollar question. I am referring to the repeal of the dividends and earning interest on savings.

What happens to this manpower number in the event the repeal goes through? Would that change your request here for additional people?

Mr. EGGER. I am not sure I understood. Are you asking——

Senator ABDNOR. Well, you are asking for——

Ms. BEEBE. Very few of the increased positions that we are requesting are associated with the withholding provisions of that law. It is less than 100. If withholding is repealed, it would not dramatically reduce our budget request.

Senator ABDNOR. Well, that legislation brought about the necessity for the additional manpower, most of it at least, that you are requesting.

In what areas will that come in?

Mr. EGGER. Mr. Chairman, the 1,775 staff-years that we are requesting for implementation of the Tax Equity and Fiscal Responsibility Act are primarily for processing the additional returns and for asserting new penalties through examination. It's also for writing regulations.

We have put together a complete study of all of the tasks that have to be accomplished in the implementation of that legislation. It runs about 250 pages. And we'd be happy to supply it for the subcommittee's review.

[The TEFRA implementation plan will be provided to the subcommittee the week of March 18, 1983.]

Senator ABDNOR. OK. Well, the proposed budget provides some 275 additional average positions and $22 million to follow through on this effort. I think we are talking about the tax enforcement?

REVENUE INITIATIVE

Mr. EGGER. Our request for 275 additional average positions and $22 million is not a part of the 1,775 staff-years needed to implement TEFRA. Instead, these additional staff-years are needed to follow through on the revenue initiative authorized for fiscal year 1983. Of the 275 average positions, 225 will be used by appeals to reduce the inventory of unresolved tax deficiencies and penalties, which currently totals almost $14 billion. The remaining 50 average positions will be used to reduce the tax litigation backlog. The requested increase of $22 million includes the funds needed to pay for the 275 additional staff-years and, in addition, includes $7.6 million in overtime to enable collection personnel to collect some $100 million in unpaid taxes.

Senator ABDNOR. Well, let me jump to the collections here. The amount for specifically dealing with delinquent taxes is continuing and delinquent taxes increase year after year. The total amount of delinquent taxes owed the Federal Government at the end of fiscal year 1982 was $24 billion, a 20-percent increase over the prior year. Now, is this trend in delinquencies going to continue or is this manpower going to——

Mr. EGGER. Right. The trend has continued up to the current point. At the end of calendar year 1982 the amount of accounts receivable stood at around $27 billion. We have experienced a fairly significant increase in the number of delinquent accounts.

However, as you will recall, the Congress authorized us to add 3,000 new positions in delinquent accounts, starting with fiscal year 1983. Those people are now on board and have mostly completed training;

and we believe that with the additional people in the work force, together with our other initiatives in collection, that by the end of this fiscal year, the current fiscal year, we should be on our way. In fact, we have projected for fiscal year 1984 an actual reduction in the number of positions that we will have in the collection area. That reduction is part of our budget.

Senator ABDNOR. You might even see a significant drop then in the billion dollars owed?

Mr. EGGER. We will certainly try to bring that down.

Senator ABDNOR. What's been the main reason? People see they can get away with it?

Mr. EGGER. There are probably a lot of reasons. Certainly the recession didn't help any from the standpoint of people's ability to meet their obligations. We think that that part of it now is on the bright side.

The main difficulty is, and has been, small businesses that are undercapitalized and run into difficulties. And they finance current operations out of moneys that have been withheld from salaries for withheld tax or for FICA, FUTA purposes, and then simply fail to remit that money to the Government; and, as a consequence, it becomes a collection problem for us.

Now, our long-range plans have a number of initiatives that we hope will permit us to get to each of those taxpayers much earlier in the years to come so that we can bring to their attention the difficulties they are buying for themselves in the future. So we have that very, very much in mind.

STATUTE OF LIMITATIONS ON COLLECTION

Senator ABDNOR. Well, once taxes are assessed, the IRS has 6 years to collect them. And the amount of delinquent taxes being written off after the 6-year tax period ends is also increasing; isn't that correct?

Mr. EGGER. Yes.

Senator ABDNOR. How much was written off this past year?

Mr. EGGER. In fiscal year 1982, we wrote off a total of $654 million because of the 6-year statute of limitations. That compares with $539 million in fiscal year 1981.

Senator ABDNOR. What do you do if they can avoid paying for the 6-year period——

Mr. EGGER. Frequently they are bankrupt and other situations and the account just sits until the statute expires. Collection action would be taken on those accounts if there were any hope of collecting, but very frequently——

Senator ABDNOR. There is not much you can do yourself?

Mr. EGGER. Very frequently we have written them off. It's just a question of the expiration of the statute.

Senator ABDNOR. The additional manpower isn't the answer?

Mr. EGGER. No; additional staff doesn't change that.

IMPACT OF BANKRUPTCIES ON COLLECTION

Senator ABDNOR. Still dealing with our collections here, according to the number of individuals and businesses filing bankruptcy, are reaching an all-time high—I hope that's come to an end, I know it's been pretty rough—many businesses are attempting to reorganize under chapter XI of the Bankruptcy Code to avoid liquidation. What experiences have you had in collecting taxes from businesses that have attempted to reorganize?

Mr. EGGER. We have great difficulties. The number of business reorganizations under chapter XI, that is, those who have filed under chapter XI, since fiscal year 1980, have gone up 250 percent. And we have reason to believe that a lot of those filings are simply to avoid the possibility of seizure of business assets and in order to require that we return assets in those cases. It certainly cuts back considerably on our ability to enforce collections in that narrow area.

I might tell you that we are also experiencing exactly that same kind of problem in the chapter XIII area. These are wage earners. Filings have gone up 50 percent since fiscal year 1980.

So I would say overall the volume of bankruptcies since 1979 has increased dramatically. And it poses a number of problems for us, the major one being collection; but the paperwork that we run into in attempting simply to keep track of those and to provide the bankruptcy courts with information is tremendous.

Senator ABDNOR. I am sure that is right. We are hoping things will get better.

WITHHOLDING ON INTEREST AND DIVIDENDS

The IRS has long maintained the withholding tax is the single most important tax compliance tool. However, there have been claims that the IRS estimates of the additional taxes to be collected through withholding, particularly between dividends withholding, are exaggerated. I keep coming back to that because I have never had an issue in my time here that has covered such a vast area. Whether I am in a sports arena or wherever, they line up to talk about that.

Now, do you really think you are hitting this on the mark, what it means, the withholdings, and what it will add to collections? You don't feel that you may have overstated that—not you, your people?

Mr. EGGER. Not at all, Mr. Chairman. We are well aware of the campaign that has been carried on for your benefit as well as for other Members of Congress. But we are absolutely persuaded that withholding is the most efficient and the least costly way to collect taxes. And in addition, it will provide not just the taxes collected as a direct result of withholding, but it will be a significant element in stimulating compliance.

I need only remind you that just this week a national magazine had a major article on the whole array of problems of compliance in our tax system. And everything and anything that we can do to maintain the integrity of our tax system in my judgment, Mr. Chairman, needs to be done.

Senator ABDNOR. Well, do you think—maybe it's been somewhat exaggerated as to the cost to the private industry and savings themselves. I don't know how it would affect them so much.

Mr. EGGER. I have seen some numbers in the public press that I have to imagine are grossly exaggerated. The real truth is that we have not seen any in-depth cost studies from industry. We have invited them to come in and bring in cost studies so that we can work through it with them. Most of the cost estimates I have seen have been on the basis of allocating costs that they would incur anyway or costs attributed to lost opportunities and other things of that type rather than incremental costs incurred as a direct result of the statutory requirement.

Senator ABDNOR. Well, by the same token, have you attempted a study as to what you think it would cost?

Mr. EGGER. We have talked to a number of institutions in the industry and asked them to submit cost data so that we could get a better feel for it. And a very few of the banks and other institutions have given us data. In these instances, in one or two cases where the data is fairly complete, it has been helpful. But it is not nearly enough of an in-depth study, in my judgment, to draw any real conclusion.

Senator ABDNOR. Well, I have heard a lot of figures kicked around, including the IRS figures. What is it, about $3½ billion a year you suggest could be collected by withholding?

Mr. EGGER. Yes; in that range, $3½ to $4 billion a year, as an average.

Senator ABDNOR. Is that a kind of off-the-ceiling figure or do you have much you can base it on?

Mr. EGGER. No; it is based on our studies from last year and the tentative studies that we did for the Banking Committee and the Ways and Means Committee last year. We are in the process of completing that study, bringing it up to date. But it is based on our taxpayer compliance measurement program, which has been going on for 20 years and on other statistical data. So it's not an off-the-wall estimate in any sense.

Senator ABDNOR. Well, I guess I have never seen a figure. Do you have any kind of a projection as to what you think it may cost business people to carry on a withholding program?

Mr. EGGER. Yes; while IRS has done no such study, an estimate of private sector costs was provided to the chairman of the Senate Finance Committee by the Secretary of the Treasury putting incremental costs in the $600 to $700 million range.

Senator ABDNOR. You don't think it will be anything as high as we have been hearing about?

Now, if it's that much, it's going to cost half that much to collect. I don't know how it will all balance out. There will be eventually some figures we can——

Mr. EGGER. No; I don't think costs will be as high as we've been hearing. The $3½ billion amount represents additional annual revenues to be derived directly from withholding. It doesn't include the additional revenue that will come about as a result of improved compliance with the tax law.

TAXPAYER ASSISTANCE

Senator ABDNOR. I need to ask a few questions about taxpayer assistance. Throughout the 1970's in justifying the need for taxpayer assistance, the IRS Commissioners stated that if IRS discontinued providing assistance the voluntary compliance would decline. Now, you don't think that is necessarily true? Do you think we will see the voluntary compliance drop more and more with taxpayers assistance? I guess I have more faith in people; they just need help in what they are doing.

I think people who are making money pay taxes. Some of them just got confused. We don't think they are confused. I see the people thinking we are going to kill them on the savings when they aren't even going to have it withheld. But they need someone to explain it to them. It really bothers me because it is amazing what ideas those people have on this sort of thing.

I will ask you, if you don't mind, to excuse me just for a second, I hope I can get on a quick car to go over and vote and I will be right back.

Mr. EGGER. Certainly, Mr. Chairman.

[A brief recess was taken.]

Senator ABDNOR. You would be interested in this vote. It's still on the same issue. This was calling for a budget waiver. And when I left, it was a little bit ahead, requiring—let's see, it was on the budget waiver part dealing with this. We were three votes ahead when I left, so it's getting close.

Let's talk a little bit more about this taxpayer assistance. It is still your intention, isn't it, in the budget, to cut back on that?

Mr. EGGER. Yes; let me see if I can share my thinking with you on this so that we can put the thing in perspective.

Senator ABDNOR. Right.

Mr. EGGER. We have for the last couple of years been concerned about the quality of taxpayer assistance and whether or not our delivery systems were all they should be.

One of the things that troubled us about the telephone answering by itself was the elasticity of demand and our inability to, in effect, keep up with it budgetwise. The telephone system is a rather costly one, and if you do it well, then you have more customers, and it doesn't seem to end; it just seems to keep on growing and growing.

Our real concern was whether or not we were able in that fashion to reach the segment of the taxpaying public that most needed our assistance. And so this year, although we have restored the telephone service, we are also trying a number of other initiatives.

TELE-TAX

For example, we now have our Tele-Tax nationwide. This is a system of prerecorded taxpayer information on cassettes. And people with access to touch-tone telephones can dial into a long list of different subjects and hear prerecorded discussions of those subjects.

Senator ABDNOR. Can I interrupt you just there for a moment?

I guess you have to have one of those touch dials to realize the people that don't have them. They are not even heard of out in South Dakota.

Mr. EGGER. Well, we are experimenting with a system in New England and some other parts of the country that is accessible from a regular rotary dial telephone.

Senator ABDNOR. All right.

Mr. EGGER. Our experience to date in this year is very, very positive. In fact, it has exceeded my expectations. We will have a great deal more information by the end of the filing season.

PROJECT OUTREACH

We are also engaging in what we call project outreach. And here we are taking our assistors out into the neighborhoods, in school classes, evenings and weekends. Up in Boston, for example, we have a group that has been riding a commuter train and providing tax assistance to the commuters going back and forth. We have some outreach in shopping centers and some in public libraries and so on. We have also expanded our televised taxpayer assistance programs. We have had three this year, whereas we only had one last year.

And we are involved in a variety of attempts to see whether we can come up with a combination of delivery systems that will better serve the American public in terms of information than we have in the past. I cannot say that the telephone isn't or shouldn't be part of that, but certainly total reliance on it as a means of assisting the public does not, in our judgment, provide everything that it should. So we are keenly interested in providing help to taxpayers—taxpayer assistance.

TAXPAYER SERVICE STAFFING

Senator ABDNOR. How many people do you have in the taxpayer service? You are talking about getting rid of 1,000. How many are assigned to what we call taxpayer service? Do you know offhand?

Mr. EGGER. Yes.

We would expect that on the telephone we will handle nearly 39 million inquiries this fiscal year. Now, those are taxpayers calling in.

Senator ABDNOR. How many people do you have? How many would you say spend their time on taxpayers? I think you are going to cut back about 990 of them.

Mr. EGGER. Our proposed budget cuts back about 990 positions.

Senator ABDNOR. Out of how many?

Mr. EGGER. In fiscal year 1983, we will have 4,500 positions in taxpayer service. Of that number, around 2,330 are engaged in toll-free telephone assistance.

VOLUNTARY PROGRAMS

Senator ABDNOR. You do have the voluntary commercial preparer groups, don't you, too, in this business?

Mr. EGGER. Oh, yes. We have two programs. We have the VITA program, which is our volunteer income tax assistance program, a very significant program, and one that is growing around the country. This program is oriented to general assistance.

And then we have what is called TCE, which is tax counseling for the elderly. And this program is oriented basically to elderly taxpayers who need assistance.

Each of these programs has been on board for a number of years, and they are growing and are totally successful.

Ms. BEEBE. Over 10,000 locations, between those two volunteer programs, are covered.

Senator ABDNOR. These are people just volunteering?

Mr. EGGER. Yes; we have a significant number of our own staff people that volunteer evenings and weekends assisting people in preparation. They come from all professions.

Senator ABDNOR. I ran into them last year, and they seemed to be cutting back dramatically——

Mr. EGGER. There was some concern over the TCE program where we have provided travel and certain other expense reimbursement; whereas, in our VITA program, we have not provided that. Our concern is that each of these volunteer programs probably should be treated alike. That was the subject we brought up here last year.

SIMPLIFICATION OF TAX PUBLICATIONS

Senator ABDNOR. Well, with the help of these people—and I think you have said that sometimes the taxpayers could do more in getting answers for their questions from your publications. But by golly, sometimes those publications—do you think they are really written so that the average person can just pick up and begin?

Mr. EGGER. You bring up an awfully good point, Mr. Chairman. During the last 2 or 3 years we have been attempting to review and, where possible, rewrite these publications. Our first effort has been with the tax return instructions themselves; and we have had a consulting firm working with us for a period of years. I think the instruction package that went out this year with the form 1040A and the form 1040EZ is a good example of what can be done. We think we have made tremendous strides there. And certainly we intend to keep right on going in this direction, looking next to general publications such as our publication No. 17, which is so broadly distributed.

FUNDING FOR VITA AND TCE

Senator ABDNOR. Well, now, last year I think we specifically earmarked for the VITA and TCE program. Will that have to be done this year or——

Mr. EGGER. That was the TCE program. The VITA program cost is for training and the materials and so on. None of those people are paid.

Senator ABDNOR. But it takes funds to keep them operating?

Mr. EGGER. Oh, yes. We have training programs.

Senator ABDNOR. Which will be part of your budget?

Mr. EGGER. It is part of the budget; yes, sir. The budget before you contains $1.3 billion for VITA and $1 million for TCE.

Ms. BEEBE. Yes; they are part of the budget and would not have to be separately earmarked. We plan to go forward with both of these programs.

Senator ABDNOR. You are going to keep upgrading these booklets. Is that a constant, ongoing thing or do you think you see the time you are going to be able to——

Mr. EGGER. Yes; that is an ongoing program, but we think we have made some strides this year. We will be working on the form 1040 instruction package next year.

Senator ABDNOR. I am sure we will have more questions as we go along, and we are never hesitant to call on you for more information.

Mr. EGGER. Mr. Chairman, we'd be happy to furnish responses to any questions as well as any that come up during the hearings.

Senator ABDNOR. Thank you. You have been very cooperative.

INTEREST PAID BY IRS

IRS is required to pay interest on refund returns that are not processed within 45 days of the due date of the return, now normally April 15 for individual income tax filings. In hearings before the House Appropriations Committee in April 1981, the IRS reported that it paid out $500 million in interest during fiscal year 1980.

How much interest was paid out in the most recent year for which data is available? Do you have 1982 figures?

Mr. EGGER. Yes; in fiscal year 1982, the amount of interest paid due to not processing returns within the 45-day period is $424.4 million. And with the new provisions from TEFRA, we fully expect to see that significantly reduced in the current fiscal year and in fiscal year 1984.

A number of the problems that we run into in meeting the 45-day period have been eliminated in the 1982 legislation.

For example, now the interest doesn't begin to run on a delinquent return until the return is actually filed. Another problem we had was with returns that we received in unprocessable form; that is to say, they were incomplete for one reason or another and we simply couldn't process them. So we'd have to get back to the taxpayer and get information and so on.

And under the law as it now stands, the 45-day period doesn't begin to run until we have in hand a return that is in processable form. Things of that sort are going to make a significant difference, in our judgment, in the cost of interest in this area.

Senator ABDNOR. Do you think there is a deliberate attempt by taxpayers to take advantage of the interest? Because it is higher—according to some articles, you pay better than money market funds.

Mr. EGGER. Well, we do experience that in other areas. But here in the 45-day period, that's pretty much in our control. So that's not an area that we would expect taxpayers to have any advantage.

Senator ABDNOR. Of course, we could go on here all day. You are a big organization, and a lot of questions come to mind and I am sure some other Members of the committee, including Senator DeConcini, who is tied up in other areas and could not be here will have questions on the automatic data processing, which is an important project for your future projections. I think I will submit questions for the record, along with some other matters that I personally would like to have answers to.

And as I said, we will get other Members. If they have questions, we will submit those in writing. I thank all of you for being here and for your patience in waiting for me to go vote.

Mr. EGGER. Mr. Chairman, if I could get one item in the record here that I omitted.

Senator ABDNOR. Please, fine.

Mr. EGGER. When we began the hearing, we talked about the impact on our budget if withholding on interest and dividends were eliminated. And we pointed out that a relatively small number of people were involved in implementing that particular provision. However, should withholding eventually be repealed, then obviously something would have to take its place. And I believe that would have a more significant impact on our budget. In other words, we would simply have to wait and see what would take its place. But it could have significant budget implications.

Senator ABDNOR. One last question on that.

Do you feel that the cost to the businesses and the people have to withhold has been overstated somewhat?

Mr. EGGER. Yes, my belief is it has been overstated.

ADDITIONAL COMMITTEE QUESTIONS

Senator ABDNOR. The questions referred to earlier will be submitted to you and inserted in the record at this point.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR JAMES ABDNOR

LEVIES

Senator ABDNOR: Levies upon wages, salaries, or other property in the possession of third parties is one of IRS' more powerful and frequently used collection tools. In fiscal year 1981 IRS used levies 740,000 times. How many times were levies used in fiscal year 1982? How many of these levies resulted in actual tax collections? How much was collected through the use of levies?

Mr. EGGER: Due to increased workload in FY 1982, we served 1,058,452 levies upon wages, salaries or other property in the possession of third parties. Although we do not collect data on how many levies resulted in actual collections or how much was collected through the use of levies, we know that the majority of levies either resulted in a payment against the tax liability or the taxpayer contacting the Service to resolve the delinquency.

TEFRA

Senator ABDNOR: The Tax Equity and Fiscal Responsibility Act of 1983 added some taxpayer protections regarding levies. Specifically, IRS is now required to notify taxpayers either in person or through certified or registered mail prior to any levy action. What effect do you anticipate these additional requirements will have on Collection operations?

Mr. EGGER: There is no evidence at this time that the mailing of fourth notices by certified or registered mail prior to levy action will increase revenue or taxpayer responses. We do know, however, that this process will require additional time and effort during the notice routine and that it will increase postage costs by $4.3 million in FY 1984.

The most we can anticipate at this time is the possible reaction of some taxpayers to the "importance" of a certified mail, causing them to respond earlier in the collection process.

AUTOMATED COLLECTION SYSTEM

Senator ABDNOR: IRS is in the process of implementing an Automated Collection System to improve the collection process. How will the system operate? What is the current status of this system? When will it be completely implemented? Do you have any further plans to automate collection activities? If so, please explain.

Mr. EGGER: The Automated Collection System (ACS) is designed to provide state of the art computer and telephone technology to significantly improve our current paper oriented office bulk processing of delinquent accounts and returns. The system will provide virtually paperless control of accounts and will be controlled by computers located in twenty large metropolitan areas (call sites). The computer will automatically sequence cases based on priority of the case and best time of the day to contact the taxpayer, and control the case until it is either resolved or forwarded to one of our district offices for contact by field personnel. The computer will dial the taxpayer's telephone number using the most cost beneficial circuitry. If the caller reaches the taxpayer, the caller will input information for resolving the case directly in the system. If the number is busy or there is no answer, the computer can reschedule the case for later call attempts.

We have awarded contracts to two vendors to test the system in four call sites (pilot sites) beginning in May 1983. At the end of the pilot operational period (September 1983) both vendors will be evaluated and a final contract awarded. Nationwide implementation in the remaining sixteen call sites is scheduled for completion by the end of July 1984.

In addition to ACS, we are currently working toward office automation for our district Collection Field and Special Procedures functions. Currently these functions process large amounts of paper and automating these operations will result in a more efficient operation that can process cases quicker and better.

IRS VOLUNTEER TAX PROGRAM

Senator ABDNOR: Have the special telephone lines established for volunteers been justified from a cost-benefit standpoint?

Mr. EGGER: We believe that the relatively modest cost of the special telephone lines is justified from a cost benefit standpoint. The annual operating expense of approximately $65,000 is more than offset by the high degree of confidence which the availability of technical back-up on difficult questions affords to volunteers. We also believe that these special telephone lines contribute to the high accuracy rates which are achieved on volunteer prepared returns.

Senator ABDNOR: Has reimbursement of volunteer expenses increased outreach?

Mr. EGGER: We do not believe that the reimbursement of volunteers under the Tax Counseling for the Elderly (TCE) program has been a significant factor in the expansion of the program. Since the program's inception in 1980 there has been a steady growth in the number of TCE volunteers and returns prepared despite the fact that funds available for grant awards have remained constant at $840,000 per year. The money available to reimburse each volunteer for out of pocket expenses is therefore quite modest and has in our opinion never been a significant inducement to program participation.

We believe that program growth has occurred because of greater familiarity by the public and participating organizations with the purpose and procedures of TCE.

IMPACT OF TAX REFORM ACT OF 1976 ON RETURN PREPARERS

Senator ABDNOR: Has the quality of returns prepared by paid preparers improved since the Tax Reform Act provisions were enacted?

Mr. EGGER: Our only readily available measurement, of the improvement in the returns being filed, is the number of penalties assessed against preparers. The number of penalties assessed in Fiscal Year 1982 has decreased substantially from the previous two fiscal years, this would indicate an increase in the compliance with the tax law by preparers.

Senator ABDNOR: To what extent have fraudulent unscrupulous or incompetent preparers been removed from business?

Mr. EGGER: We do not have any statistics to show the number of preparers who have quit preparing returns as a result of the Tax Reform Act Provisions.

However, Criminal Investigation Division statistics reveal a decline in criminal prosecution recommendations over the past three fiscal years, which would indicate that the Service has had an impact on the fraudulent and unscrupulous return preparer.

	FY 80	FY 81	FY 82
Criminal Cases Initiated	52	19	18
Discontinued Cases	53	15	13
Prosecution Recommendations	25	16	6
Total Convictions	12	21	10

Senator ABDNOR: To what extent has the IRS used the injuctive authority?

Mr. EGGER: The injunctive authority under Section 7407 of the Internal Revenue Code has been used sparingly by the Service. In Fiscal Year 1982 the injunctive relief provision was used only 10 times.

CLOSING THE TAX GAP

Senator ABDNOR: What is IRS' most recent estimate of the tax gap? If the current estimate differs from the preliminary estimate provided last year, please explain the differences and why they occurred.

Mr. EGGER: Our most recent estimate of the tax gap is the preliminary one released last spring--a gap of $87.2 billion in the legal sector for both individual and corporate income taxes and $6.1 to $9.8 billion in the illegal sector for 1981. We are in the process of revising our preliminary estimates and plan to provide revised estimates and reasons for the differences from the preliminary estimates soon.

Senator ABDNOR: What portion of the tax gap does IRS now estimate would cost more to collect than the Treasury would receive?

Mr. EGGER: Precise estimates of that portion of the tax gap that could be economically closed are admittedly difficult to come by. We have not updated our September 1981 rough estimate that about half of the taxes due on legal sector unreported income would be uneconomical to pursue.

Senator ABDNOR: Would the tax gap estimate change if the results of the appeals process were factored into the estimate?

Mr. EGGER: Yes, it is projected that the tax gap estimate would be only slightly smaller if the results of the appeals process for TCMP returns were taken into account. It is estimated that it would change by as little as three percent to no more than ten percent if the appeals process were factored in.

Senator ABDNOR: Should the results of the appeals process be used as a factor in estimating the tax gap?

Mr. EGGER: We believe that the current tax gap concept should remain independent of the appeals results because many other factors are considered during the appeals process including hazards of litigation. Moreover, since the reduction due to the appeals process is not significant, there is no major benefit to be derived by making the adjustment.

Senator ABDNOR: IRS has reported an increasing trend in noncompliance with the tax laws, the Congress has provided IRS with additional resources and new tools to combat the noncompliance, will IRS now be able to reverse this trend toward noncompliance?

Mr. EGGER: The Service clearly is in a better position to combat noncompliance with the additional resources and new enforcement tools than it would have been without such assistance. We believe that these steps were necessary and are confident that at a minimum, they will help slow the observed decline in voluntary compliance. However, it is too early to tell how much of a beneficial effect on compliance the additional resources and new tools will have.

In fact, the precise impact of this Congressional assistance on compliance will remain difficult to accurately measure. There are social and economic factors beyond our control that affect taxpayer compliance, making it quite difficult to separate the effect of these external factors from that of the additional resources and new tools.

It is also important to note that the additional resources referred to in the question were specifically targeted toward maximizing direct revenues and accelerating cash flow. They were not necessarily allocated to foster greater voluntary compliance, although we certainly expect that they will have some salutary effect on this problem.

Senator ABDNOR: If IRS is not able to reverse the trend in noncompliance, what specifically would IRS need, in the form of additional resources and/or changes in the tax law, to achieve this objective?

Mr. EGGER: On a continuing basis through the budget process and in tax policy deliberations, IRS and Treasury attempt to identify where additional resources or legislative remedies are needed. The complexity of these deliverative processes makes it extremely difficult, and inadvisable to try to identify future resource requirements and legislative proposals outside these processes. Undoubtedly we will need both, but the specifics will have to be developed as part of the budget and tax policy processes.

Senator ABDNOR: What efforts are being made or planned to develop estimates for other types of illegal earnings. What would IRS do with the information?

Mr. EGGER: At present, IRS is in the process of preparing a report on illegal-source activities estimates, including unreported income. It will cover estimated income from several illegal activities including trafficking in drugs, gambling, prostitution, shoplifting and employee theft, cargo theft and hijacking, other theft from businesses and households, arson for profit, cigarette smuggling, and a number of frauds against the government.

The IRS is preparing these estimates to assess the relative importance of illegal source income and associated tax gaps in the context of the total tax gap problem confronting the Service. The IRS intends to use this information for purposes of assessing our enforcement policies and strategies. This information will also be made available to policy makers in other agencies concerned with various aspects of the illegal sector. For example, IRS estimates relating to illegal drugs will help improve the annual estimates of the supply of drugs to the U.S. illicit market prepared by the National Intelligence Consumers Committee (NICC), an interagency group responsible for preparing timely and reliable intelligence involving the illegal drug problem.

Senator ABDNOR: IRS' estimate of the current tax gap is based on the decreasing compliance trend as shown by TCMP examinations over the years. However, Susan B. Long notes that the average length of a TCMP audit has increased from 3.5 hours in 1963 to 6.2 hours in 1973. How much of the apparent declining trend is due to a decrease in compliance and how much is the result of more extensive TCMP audit efforts by IRS?

Mr. EGGER: Our records indicate that the average length of a TCMP audit for 1973, 1976 and 1979 is 5.2, 6.1 and 6.9 hours respectively. There are several reasons for these gradual increases. From 1973 to 1979, tax returns have become more complicated. During these years, incomes have risen significantly and more schedules are filed. At the same time our tax laws have become more complex. We believe our TCMP examinations have been of uniform quality.

Senator ABDNOR: Also, a recent GAO report noted that in 84 percent of the appealed cases the proposed adjustments were reduced or eliminated. Further, some proportion of the assessed additional tax and penalties are never collected. Provide your opinion, and statistics if available, regarding what amount of the taxes and penalties that are assessed are actually collected.

Mr. EGGER: We have historical data that allows us to predict the amount of taxes and penalties that are assessed and eventually collected. For the 1,636,000 returns we expect to examine in FY 1984 we will assess approximately $7.7 billion in additional tax and penalties and collect approximately $7.4 billion.

Senator ABDNOR: In your opinion, what proportion of this difference between proposed additional taxes and penalties and the amount that reaches the Treasury is due to incorrect tax and penalty assessment by IRS' examiner? IRS lowering the "true" tax penalty liability of the taxpayer in order to obtain a settlement with the taxpayer? IRS' ability to collect the tax and penalties?

Mr. EGGER: We do not have the data necessary to respond to this question.

TRANSPORTATION

Senator ABDNOR: When do you anticipate completing your study on the collection of the new highway user taxes in the Surface Transportation Act?

Mr. EGGER: The request for the study of alternatives to the heavy vehicle use tax is contained in Section 513(g) of the Surface Transportation Assistance Act of 1982 (P.L. 97-424). That section of the Act directs the Department of Transportation, in consultation with the Department of the Treasury, to make recommendations to Congress regarding the results of this study not later than January 1, 1985. To assist the Congress in considering tax alternatives offered in bills now pending before it, the Department of Transportation and the Department of the Treasury have agreed to provide this study to Congress by January 1, 1984, one year ahead of the mandated completion date. In addition, current plans call for a preliminary report to be issued in the summer of 1983 outlining selected tax options.

Senator ABDNOR: Since this is not a new type of tax, or a new procedure, why does it take a year for a study to be completed?

Mr. EGGER: The study is examining types of tax which now are not administered by the Internal Revenue Service. Alternatives to the heavy vehicle use tax which will be examined include taxes based on vehicle size or configuration; vehicle weight, both registered and actual operating weight; and distance traveled. In addition, the study will examine plans for improving the collection and enforcement of the heavy vehicle use tax and the alternative taxes being reviewed. This aspect of the study will consider how the implementation of Section 143 of the STAA provides for state involvement in the enforcement of the heavy vehicle use tax. Plans for improving the collection and enforcement of this tax and any alternative taxes are to include, where practical, even more Federal and State cooperative activities. In meeting this requirement, the Federal agencies must consult with State officials, motor carriers and other affected parties, before making recommendations to Congress by January 1, 1984.

Senator ABDNOR: What priority are you giving this vital effort? Have you put it on the "back burner"? How many people are working on it? Can you assign more people to this project?

Mr. EGGER: The Internal Revenue Service is providing support as requested to the office of the Assistant Secretary for Tax Policy. In addition, an analyst in my office has been designated to consult with the Department of Transportation in completing their study at the earliest possible date. The staff at Department of Transportation working on the study indicates that they expect to expend three staff years on this study. They believe that assigning additional staff to work on this study would not be productive.

EXCISE TAXES

Senator ABDNOR: On January 5 of this year the Federal Register contained a notice of proposed rulemaking on the subject of manufacturer's excise taxes. The notice contained a section of statutory changes which impact on manufacturer's excise taxes. However, there was no mention of the exemption of custom gunsmith's who produce fewer than 50 firearms per year. Could you tell us why?

Mr. EGGER: The notice published January 5, 1983, dealt with amendments made to various sections of the Internal Revenue Code pertaining to Manufacturer's and Retailer's Excise Taxes. There were no amendments to the Internal Revenue Code which exempted custom gunsmiths who produced fewer than fifty firearms per year. The exemption which you refer to was contained in the continuing resolution enacted on October 4, 1982 and stated that no funds could be used to impose or assess any tax relating to custom gunsmiths who produce fewer than fifty firearms per year. That resolution expired on December 17, 1982 and no new prohibition was enacted as part of the continuing resolution of December 22, 1982. Therefore, under the current law there is no exemption for custom gunsmiths who produce fewer than fifty firearms per year.

Senator ABDNOR: In the same notice of proposed rulemaking at page 446 the IRS is proposing to classify the reloaders of cartridge or their customers as "manufacturers" liable for excise taxes, while under current rulings they are not considered as such. Do you think making the thousands of reloaders and/or their customers "manufacturers" to be enforceable and sound tax administration?

Mr. EGGER: The Internal Revenue Service is not proposing to make thousands of reloaders and/or their customers "manufacturers". The Internal Revenue Service is merely proposing to include within the regulations the position already stated in Rev. Rul. 56-209, 1956-1 C.B. 511 with one additional issue being addressed. That issue is whether the excise tax applies to the resale of a custom reloaded cartridge by the customer. The conclusion reached in the proposed regulations is that the customer would be subject to the excise tax.

EQUIPMENT REPLACEMENT PROGRAM

Senator ABDNOR: IRS has begun an ambitious and far reaching Equipment Replacement Program to increase and improve the use of computer technology to support its operations. These efforts are impressive and should do much to improve tax administration and reduce costs. Given the size and number of the various projects being initiated, however, the Service will have to take special care to assure that its efforts are effectively coordinated and reflect the overall goals, needs, and priorities of IRS.

During last year's hearings, IRS provided a schedule for implementing its equipment replacement program along with projected annual costs of the program.

Is the program on schedule and, if not, what are the revised estimates for the program? Have the projected costs changed, and if so, what are the new cost estimates? If there have been schedule or cost changes, why have they occurred?

Mr. EGGER: The Equipment Replacement Program (ERP) is scheduled for full implementation by January 1985. We have sustained that schedule and expect to complete the remaining program milestones as planned. In March 1982, IRS awarded a contract for the Microfilm Replacement System (MRS) phase of ERP, which will automate the current research process and improve the privacy protection of taxpayer data. Implementation at all service centers is now planned by June 1983, two months ahead of our earlier schedule. The Master File Replacement System phase will modernize equipment at the National Computer Center. The IRS awarded a contract for this system in June 1982, and full implementation was completed in January 1983. The Service Center Replacement Systems phase of ERP will increase reliability and workload capacity of service center hardware systems, while also providing automated error correction and unpostable resolution which will accelerate returns processing. In March 1982, equipment was installed in the pilot service center in Memphis. The IRS will install equipment in the other nine service centers by April 1983, with full implementation scheduled for January 1985.

After the planned reapplication of 193 average positions for operational maintenance of SCRS software, and the non-recurring of 4 average positions for MRS, the actual implementation costs for the Equipment Replacement Program in this budget request exceed those reflected for FY 1984 in last year's Congressional Budget request. This increase includes 38 average positions and $2.8 million. We have added disk capacity to all SCRS sites, accelerated a CPU delivery for the second benchmark and increased the maintenance coverage at our test site in Martinsburg, W. VA. We also have ordered additional CPU for Martinsburg to support the program development workload. I am providing a chart, which reflects these updated figures for the record.

EQUIPMENT REPLACEMENT PROGRAM BUDGET AUTHORITY ($MILLIONS)

	FY 80	FY 81	FY 82	FY 83	FY84	FY 85	FY 86	FY 87	TOTAL
Staff Years	188	190	315	393	234	106	5	0	1431
Personnel Costs	5.6	6.1	11.0	13.8	8.6	3.7	0.1	0	48.9
Equipment Costs	--	--	5.3	14.1	21.8	21.4	20.8	12.8	96.2
Facilities Costs	.2	6.0	7.6	4.4	4.9	6.1	3.6	2.0	34.8
TOTAL ERP	5.8	12.1	23.9	32.3	35.3	31.2	24.5	14.8	179.9

ADP STRATEGIC PLANNING

Senator **ROYBAL**: How do these new policies and procedures differ from those used by the former ADP Policy/Resources Board? Why were they changed? What controls are there to assure that individual projects conform to the long range plan?

Mr. **EGGER**: The former ADP Policy/Resources Board, which was composed of the Assistant Commissioner (Data Services) and all Deputy Assistant Commissioners, was replaced by the new Automation Policy Board, which is composed of the Deputy Commissioner, the Deputy Chief Counsel, the three Associate Commissioners and two Regional Commissioners. This change was made to improve the quality of ADP strategic planning and control by elevating the level of attention and providing for field involvement. The new Board considers proposed significant ADP initiatives in the concept development stage, to assure that they conform to the Service's ADP strategy and long range plans. The Board is developing an ADP Strategic Plan to guide the Assistant Commissioners in their approval of ADP projects. Projects that would deviate from the Plan's guidelines require specific approval by the Board or the Deputy Commissioner.

Senator **ROYBAL**: Who is responsible for assuring that none of these projects duplicate or conflict with other projects? What procedures prevent these situations? How will IRS ensure that systems can interface with others when necessary?

Mr. **EGGER**: The Service has a three-tiered mechanism for preventing duplication or conflict of projects. (1) Large, complex projects or those with strategic implications are individually approved by the Automation Policy Board. A Service executive is normally appointed as full-time Project Manager, reporting to a cross-functional Automation Implementation Control Group, which oversees detailed planning of the project and coordination with all affected IRS systems. (2) Projects not significant enough for the Board's direct purview must be approved by one of three Associate Commissioners and determined to be within the guidelines of the ADP Strategic Plan. (3) Regional and local projects must also be documented in the IRS National Register of Projects; the approving official must determine that they do not duplicate other projects and are in conformance to the ADP Strategic Plan.

Compatibility of various IRS systems is addressed in the concept development process. It is promoted by the centralized planning and control of data communications, by Servicewide standards for operating systems and data formats, and by the Service's procurement strategy for mini- and microcomputers.

COMPUTER RESOURCES

Senator **ABDNOR**: What was the Service's rationale for reassigning organizational control of the Data Center to the Assistant Commissioner for Support and Services?

Mr. **EGGER**: The Data Center is primarily concerned with planning, designing, testing, and operating administrative support systems. These functions are supportive in nature, and are closely aligned with the functions of the Policy and Management organization, of which Support and Services is a part. As a major user of Data Center services, and the primary support organization for the Service, Policy and Management was the logical choice for the placement of the Data Center.

Senator ABDNOR: Does the Associate Commissioner for Data Processing have any role in managing the Data Center?

Mr. EGGER: The management of the Data Center is the direct responsibility of the Assistant Commissioner (Support and Services), who reports to the Associate Commissioner (Policy and Management).

The Associate Commissioner (Data Processing) is involved in overall ADP policy development and oversight of the Data Center as a member of the Service's Automation Policy Board and Planning Council. There is also close coordination between the Data Center and the Computer Services organization (which reports to the Associate Commissioner (Data Processing)) on matters such as documentation, programming standards and the coordinated design and implementation of a number of ADP systems.

Senator ABDNOR: What responsibility does the Associate Commissioner for Data Processing have for those systems that are being designed and developed by other IRS groups?

Mr. EGGER: As a primary policy executive of the Service, the Associate Commissioner (Data Processing) has a major role in the oversight of ADP projects. He is a member of the Automation Policy Board, and as such, participates in the development of the Servicewide ADP Strategic Plan, and in the approval of all significant ADP projects within the Service.

Once approved, most major ADP projects are developed and implemented under the direction of a project manager who receives direction and guidance from the Automation Implementation Control Group, which is chaired by the Associate Commissioner (Data Processing). This Group oversees the implementation of major projects and ensures appropriate coordination with all functions.

As the supervisor of the Assistant Commissioner (Computer Services), the Associate Commissioner (Data Processing) is ultimately responsible for ensuring that Computer Services is effectively meeting its objectives. These objectives include the maintenance of the Service's tax administration systems, the design and implementation of new ADP systems in accordance with the Service's ADP plan and Automation Policy Board decisions, the provision of specialized ADP technical assistance to IRS organizations on the application of automation technologies and the acquisition of ADP hardware and other services in a timely and effective manner.

Senator ABDNOR: How does the Associate Commissioner for Data Processing determine the priority of those projects his staff is responsible for?

Mr. EGGER: Establishing priorities among ADP efforts is a principal concern of the Automation Policy Board. As I mentioned the Associate Commisisoner (Data Processing) is a member of the Board. For those projects of limited significance and scope that do not require Board approval, the staff of the Associate Commissioner (Data Processing) use a number of criteria in setting priorities.

Examples of priority setting criteria are:

- Is the project one which is mandatory? (Legislation or Executive Order?)
- Does the project support the overall ADP objectives of the Service as approved in the ADP Strategic Plan?
- Is the project cost beneficial?
- Does the project have Servicewide applicability?

ADP COST ACCOUNTING

Senator ABDNOR: What is the status of IRS' ADP Cost Accounting System?

Mr. EGGER: IRS plans to develop a comprehensive Servicewide Cost Accounting System which will contain an ADP cost allocation component. While work on this effort has been delayed as a result of recent budget constraints, we are proceeding to develop an ADP cost allocation component as interim step in the development of a Servicewide system. The Servicewide system will be consistent with OMB requirements.

In the interim, we have developed a rough ADP cost distribution report. While this report is far from perfect, it does provide a basis for development of our more refined system.

PAYROLL/PERSONNEL SYSTEM

Senator ABDNOR: What is the status of Treasury's payroll/personnel system? Is IRS continuing its efforts to improve its own system? What has been the cost of the Service's efforts to date? Why continue this effort if IRS will be using the new Treasury system?

Mr. EGGER: The Treasury Department is in the process of identifying and developing a comprehensive modernized payroll/personnel system which will be used by all of the bureaus in the Treasury. The Internal Revenue Service has been and continues to be a part of that study group. The work that has been done on the IRS Modernization System is in concert with the objectives and goals of the Treasurywide system. We do not anticipate that any of the work that has been done or continues to be done on modernizing the IRS payroll system is in conflict with what will ultimately be included in the Treasurywide system. In fact, much of the work that has been done will assist Treasury in speeding up the process for one complete system. The major effort at this point has been aimed at automating our time and attendance system and other manual systems that would generate savings quickly, and developing the requirement for a modernized payroll/personnel system. To date, we have spent approximately $500,000.

COMPUTER RESOURCES

Senator ABDNOR: What are IRS' plans for the Detroit Data Center if the payroll/personnel system will no longer be processed there?

Mr. EGGER: The IRS is undertaking a study to examine the Detroit Data Center, with particular emphasis to be placed on its current and future workload. Studies in the past have indicated that the Center is a well-managed organization with a seasoned and experienced workforce capable of providing a wide-range of data processing support to the Service. With advancing technology, and proposed changes in payroll/personnel processing, we are in a position to take advantage of both its managerial and employee expertise in meeting the needs of the Service.

While the study is only just beginning, its charter includes the assessment of the effects of changing technology and processing schemes on the staffing requirements of the Center, and the identification of other labor intensive work that could cost-effectively be done at the Data Center. The study will include an objective analysis of work being performed both in tax and non-tax processing areas.

MINI-MICROCOMPUTER PROGRAM

Senator ABDNOR: IRS is planning to negotiate an agreement to purchase a minimum of 200 microcomputers and 120 minicomputers over a two-year period. This will cost the Service at least $7 million and possibly much more since the arrangement allows a maximum of 600 microcomputers and 350 minicomputers to be purchased. This action is being taken so that if and when field managers decide they need this equipment, it will already be available for them. In addition, everyone would be using compatible equipment. In a separate effort to encourage automation, IRS also recently increased the dollar value of computer procurement that could be made by field offices without National Office approval. This has resulted in field offices already acquiring a number of mini and micro computers.

What is the current inventory of minicomputers and microcomputers already in place at IRS? How many different makes and models have been purchased? To what extent are they compatible? If additional automated systems are required in field offices, could the equipment already in place be used to support them?

Mr. EGGER: The current inventory of mini/microcomputers within the IRS is as follows: 379 microcomputers and 77 minicomputers. There are approximately twenty (20) different makes and models of mini/microcomputers. Almost all the mini/microcomputers are compatible to the extent that the operating systems must be either C/PM or Unix. Before any additional equipment can be procured, the field is required to explore the feasibility of using existing equipment.

Senator ABDNOR: How can IRS be sure that the minimum number of mini and microcomputers it will agree to purchase will ever be requested by field offices? How can IRS determine exactly what kind of equipment it will need without knowing exactly how the mini's and micro's will be used?

Mr. EGGER: IRS is confident that the minimum number of mini and microcomputers will be ordered. In fact, we are aware of planned acquisitions from the requirements contract which exceed the minimums.

Our estimates for the minimum/maximum number of systems to be obtained was determined as follows:

There are approximately 900 office locations within the Internal Revenue Service, of which 130 employ over 100 people, and of those, 35 employ over 500 people.

The 35 offices employing over 500 people require at least one minicomputer with ten terminals within each of the five functional areas. This equates to 175 configurations. The 95 remaining offices employing over 100 people will require configurations ranging from several minicomputers clustered with ten terminals each to a single minicomputer with two terminals. Each of the 95 will require two configurations for a total of 190.

Therefore, the number of minicomputers needed is estimated to be 365. The minimum number on the contract is 120. Those same offices also require microprocessors in areas which need computational capabilities for varied functional requirements. It is estimated that, at a minimum, ten microprocessors will be required at each of the 35 offices employing over 500 people, which equates to 350; three microprocessors will be required at each of 95 offices employing over 100 people, which equates to 285, for a total of 635 microprocessors. The minimum number on the contract is 200.

IRS determined the configurations and the optional equipment and software needed through the analysis and evaluation of historical data submitted by field offices on IRS Delegation Order 106 procurements (limited ADP procurement authority provided to field organizations); a survey of field offices data/word processing requirements, and results from test sites.

Senator ABDNOR: Several information systems and office automation efforts are also being planned that will be supported by mini and microcomputers. Some of these projects have begun to acquire the equipment they will require.

Could these new systems use the equipment IRS is currently arranging to purchase? Should they?

Mr. EGGER: Some of the information systems and office automation efforts that are being planned will exceed the capacity of the systems that will be available under the Mini/Micro Requirements Contract. The guidelines for acquiring systems from the requirements contract allows alternative means of acquiring ADP systems rather than suggesting that user needs be tailored to the type of systems that will be available from the requirements contract.

Senator ABDNOR: Could IRS have purchased any mini and microcomputers it needed from the appropriate GSA schedules? Wouldn't this have been less expensive than conducting its own procurement, especially since the equipment would have been readily available once the need for it had been determined, all of the equipment would have been compatible, and IRS would have avoided committing itself to buy equipment it may never need?

Mr. EGGER: IRS could have purchased mini and microcomputers from the GSA schedule; however, the following benefits would not be realized:

a. Standardization of hardware, systems software and applications software.

b. Reduction of acquisition time.

c. Elimination of duplication of software development.

d. Reduction of software development.

One competitive solicitation was issued eliminating separate procurements for individual requirements. Since market analysis and comparative pricing for each delivery order will not be required, acquisition time will be reduced. Quantity discounts are anticipated, which will result in lower prices than those offered on GSA schedules.

Individual Procurements from GSA schedule contracts would result in the acquisition of varying types of hardware and software. Varying software could not be shared among the different types of hardware being procured. Standardization will permit maximum user exchange of applications software.

SERVICE CENTER REPLACEMENT SYSTEM

Senator ABDNOR: Under IRS' ADP Equipment Replacement Program a contract was awarded in June 1981 for eleven Sperry Univac 1100/82 computer systems for IRS' service centers. The lease/purchase contract provides for ADP equipment and maintenance over an eight year period. The contract also includes provisions for expanding and upgrading the systems.

Since the contract was awarded have the initial system configurations been expanded to include additional central processing units (CPU) and/or peripheral equipment? If so, why was the expansion(s) necessary?

Mr. EGGER: We have made two basic changes to the peripheral equipment over the initial contract levels. We added two disk controllers and from three to eight disks per site. This change has allowed us to improve operational efficiency and internal controls of the system by replacing tape files with disk files. We have also added the capability for interactive programming (IAP) at all sites. This capability gives us capability in remote testing of our preproduction software.

A CPU has been added at one center to accommodate a benchmark. An additional CPU has been ordered for Martinsburg to accommodate program development.

Senator ABDNOR: The service center systems are being installed in stages with the Cincinnati service center being the last center to receive the new system by April 1983. When Cincinnati Service Center receives the new system a revalidation of the systems' benchmark will be conducted.

Why is a second benchmark test necessary? Have there been any significant changes to IRS' anticipated workload since the first benchmark was completed? If not, what do you expect to gain from the second benchmark?

Mr. EGGER: The SCRS contract included an option for the IRS to require a rerun of the performance validation. The decision to run a second benchmark at this time was made based upon the following considerations:

(1) The second benchmark is necessary to determine if the out year SCRS processing requirements can be met with the proposed equipment. The question as to capacity of the equipment in future years arose because data from the original benchmark indicated that the equipment proposed for the early years was at the upper threshold of its capacity. Since we have not benchmarked future years and because all systems will be in production mode later this year, it is imperative that the benchmark be run at a site prior to that site's commencement of production on the system because no Service Center can relinquish a production computer for one week.

(2) We anticipate that the introduction of the Error Resolution System (ERS) on SCRS will have a significant impact on the originally projected workload, however, the benchmark rerun does not address ERS considerations - the rerun is an exact duplication of the previous ones except that the data must be processed in a shorter time frame.

(3) The expected benefits of a rerun of the benchmark at this time are (a) our ability to forecast system performance in the out years; (b) our ability to determine the impact of introducing new applications on the system; and, (c) our ability to initiate any corrective actions that may be required in a timely manner.

Senator ABDNOR: Under the Equipment Replacement Program IRS placed a moratorium on service center computer systems enhancements and developments while the new equipment was being installed and computer programs are/were being rewritten into a new programming language. There are, however, a number of enhancements underway or planned for the new system such as an on-line error correction and an on-line unpostables correction system.

What are the major projects planned or under development for the service center replacement systems?

Describe the projects and provide cost and schedule information for each one.

Mr. EGGER: The original moratorium was placed to ensure that the SCRS conversion was completed on schedule. Since then there have been a number of proposed enhancements which have been made and accepted on the basis that the conversion would not be adversely affected by them. The major enhancements now planned and in process are:

- On-Line Error Resolution System

This system will be a replacement for the present service center Batch Error and Reject Resolution process. It will eliminate the printing of hard copy error registers and subsequent transcription of corrections from the registers in batch mode. This system will instead display the erroneous data on a terminal display screen, with corrections made and accuracy verified in a realtime environment. Certain unpostable records, determined to be uncorrectable by the unpostable function, will also be assigned to this system for correction. This will eliminate the necessity to delete and retranscribe the entire data record.

Our present schedule calls for placing Form 941 under this system nationwide by April 1, 1984; Form 1040 by January 1, 1985 and the remaining returns by January 1, 1986.

Developmental cost is estimated at 39 staff years and equipment cost of 6.3 million dollars.

- Service Center Replacement System Generalized Unpostable Framework

The Generalized Unpostable Framework (GUF) is a system designed to provide research and correction capabilities for tax transactions which attempt to post to accounts on the various IRS Master Files but cannot due to various conditions. GUF replaces a current system which accomplishes the same functions using punched card files and batch processing only.

Enhancements being built into GUF which were not in the prior system include: "Real Time" terminal corrections (on the same terminals used for research), Automated Historic Files, removal of 80 character data limitations required by cards, enhancements to "semi-automatic" correction capabilites for common unpostable errors, automated control reports and inventory control, and a link back to Error Resolution to save retranscribing data for certain transactions.

Nationwide implementation is scheduled for August, 1984

Costs are estimated at 16 staff years.

- Centralized Authorization File

The purpose of this system is to eliminate the use of the existing manual file as our primary device for verifying power of attorney when dealing with taxpayer representatives. It provides taxpayer representatives of record with copies of notices and other written communications by the service center and districts. Most of this system has already been developed for SCRS, with an added enhancement scheduled to be completed by January 1985. Developmental cost - 12.5 staff years.

- Centralized Files and Scheduling

This system produces a file of returns awaiting examination after being classifed (centralized storage) and handles the scheduling of taxpayers for field and office audits. Inventory and status reports are produced as well as taxpayer letters. It includes the conversion of the system to SCRS and the addition of many systemic improvements.

The SCRS conversion is scheduled for October 11, 1983, and the AIMS update for July 1, 1984.

Development cost is estimated at 4 staff years.

- Combined Case Control System (CCC)

CCC is a system that controls the statute of limitations or large interrelated groups of cases for examination, primarily suspense or tax shelter cases. The system produces reports reflecting the data on the CCC master files, letters and consents to extend the statute of limitations, reports relating to file maintenance, plus a national tax shelter directory and notification of the closure of key cases. It includes the development of linkage with the AIMS system and complete conversion of the system and the linkage to the SCRS UNIVAC system.

Our schedule for conversion of AIMS linkage nationwide on SCRS is October 11, 1983, and integration with AIMS, October 1984.

Our developmental cost is estimated at 6 staff years.

These represent the major projects of this type. We have not included any changes which would be derived from tax legislation, nor have we included a number of enhancements of lesser magnitude.

I think it is worth noting that these major enhancements, as well as most of the minor ones not listed, are directed toward the objective of increased productivity in our processing.

MASTER FILE PROCESSING AT THE NATIONAL COMPUTER CENTER

Senator ABDNOR: Under the ADP Equipment Replacement Program, IRS has bought new computers to support master file processing at the National Computer Center. This replacement involved retaining two of the newer, more powerful systems, an IBM 370/168 and an AS-6 computer, and replacing seven older IBM computers with one new and very powerful state-of-the-art computer, an NAS/9060. Recently, however, IRS initiated a feasibility study to replace the two newer systems which were to have been retained. Apparently, this latter replacement action is premised on anticipated workload growth. The feasibility study was to be completed by the end of February 1983.

What were the results of the feasibility study? What percentage growth is expected over the workload projected under the initial master file equipment replacement study? Why wasn't the new computer system, the NAS/9060, sized to accommodate the anticipated workload growth?

Mr. EGGER: The Master File Replacement System (MFRS) study, which ultimately resulted in the acquisition of the NAS/9060 computer, was done to replace obsolete equipment that processed the master file production workload. The replacement system specifications were sized to include growth over the life cycle of the hardware.

The AS-6 has been used primarily to support the newly emerging interactive program demands, i.e., the Interactive Programming/Remote Job Entry (IAP/RJE) program. Subsequent experience with the IAP/RJE program has indicated that the AS-6 will not be able to meet future needs in this area, and a feasibility study was commissioned to look into the potential demand for increased computing capacity. That study is not yet completed.

Senator ABDNOR: Under IRS' original Equipment Replacement Program all of the computer programs used at the National Computer Center for master file processing were to be restructured and converted from assembly language code to a higher level language such as COBOL. The program conversion along with replacing the older National Computer Center computers were to give IRS greatly improved master file processing efficiency and effectiveness.

Does IRS still plan to convert the Master File programs to a higher level language? If not, how will the continued use of programs written in assembly language affect a redesign or replacement of the tax processing system?

Mr. EGGER: The IRS has no immediate plans for mass conversion of the Master File into a higher level language. A previous study concluded that a conversion for that purpose would not be cost effective. The IRS has initiated a project called "Tax Processing System Redesign," the purpose of which is to explore alternative system designs which take advantage of state-of-the-art hardware and software. This will be an OMB Circular A-109 procurement effort, and as such, designation of the computer language utilized will be part of the vendor's design and subject to the evaluative process.

PROJECTS TO REDUCE LABOR-INTENSITY OF SERVICE CENTER RETURNS PROCESSING

Senator ABDNOR: IRS has a number of recently completed, ongoing, or planned projects directed at improving or eliminating labor intensive aspects of tax return processing in the service centers. Included in the projects are several applications of Optical Character Recognition (OCR) technology, as well as a new system to replace the current Direct Data Entry System (DDES) which is used to transcribe tax return data onto magnetic tape for computer processing. The replacement system for DDES is referred to a the Distributed Input System (DIS).

What is IRS doing to coordinate the various projects in order to minimize the duplication of competing projects, and ensure compatibility among the competing technologies?

Mr. EGGER: We feel that the DIS project (manual transcription of tax forms) and the OCR projects (automatic recognition of tax form data) complement each other rather than compete with each other. However, we are ensuring that the output of both these technologies is compatible. That is, the "downstream" processes (mainline tax processing) will be able to accept input from either one without modifications to the programs.

The primary purpose of the Distributed Input System (DIS) is to replace our aging obsolescent Direct Data Entry System (DDES). The DIS will be used primarily to manually transcribe tax returns and documents such as forms 1040. The tax returns do not lend themselves to current or projected OCR technology since most of them are hand-printed. However, pre-printed portions of the return (primarily the IRS mailing label) are good candidates for scanning with hand-held OCR devices. The evaluation criteria in the DIS RFP awards points to those vendors whose systems will permit the attachment of these devices. Our FY 84 budget includes the projected acquisition of hand-held devices for this and other purposes.

One of the primary OCR initiatives calls for the installation of sophisticated state-of-the-art scanner devices starting in February 1984. The scanner system will be used initially to optically read IRP documents (forms 1099). After we have perfected our OCR processes for IRP documents, we plan on adding other tax forms that are compatible with OCR technology (such as forms in the 94X series). We also plan on testing tax returns which have been computer prepared to our specifications. Large preparers of tax returns are now being contacted to ascertain their interest in this project. Initial results are most encouraging.

DISTRIBUTED INPUT SYSTEM

Mr. ABDNOR: A recent GAO report "IRS Can Do More To Identify Tax Return Processing Problems and Reduce Processing Costs" (GGD-83-8, October 14, 1982) showed that by incorporating certain features into DIS, IRS could reduce its error correction workload by as much as 5 percent and error processing costs by as much as $495,000 annually. Although DIS afforded the opportunity to have prompting features built into the system, the Request For Proposals did not contain these features. IRS contended that they could be incorporated into the system at a later time.

What are IRS' specific plans for addressing the GAO recommendation? To what extent has IRS studied this recommendation to determine its impact on reducing data transcription training costs and reducing the error correction workload associated with processing tax returns?

Mr. EGGER: The IRS agrees with the GAO findings and recommendations and is planning to incorporate the prompting feature into the DIS implementation. The Service is conducting an on-going analysis on the scope, nature and rates of differing types of transcription errors by surveying service center operations. We are also studying alternative prompting techniques and error correction methodologies in our efforts to implement improvements, which would operate as a part of the Distributed Input System and Service Center Replacement System.

QUESTIONS SUBMITTED BY SENATOR DENNIS DECONCINI

BUDGET INCREASES

Senator DECONCINI: Mr. Egger, once again IRS is asking for some pretty hefty increases in both dollars and positions, particularly in the collection areas. I understand, however, that the amount of delinquent taxes continues to increase despite last year's big infusion of resources and this year's huge increase. At the end of fiscal year 1982, the total amount of delinquent taxes owed the Federal Government was over $24 billion, a 20 percent increase over fiscal 1981. What specific assurances can you give us that if the budget add-ons requested are approved by Congress, that delinquencies will not only slow down, but decrease in fiscal year 1984?

Mr. EGGER: While I would like to give you specific assurance that the Service can slow down and decrease tax delinquencies in FY 1984, that ultimately will depend on taxpayers' compliance with the filing and paying requirements. FY 1984 will be the second full year for the 4,000 staff year increase in our Collection activity. At the end of FY 1984 we estimate a reduction in the end of year accounts receivable inventory of approximately 35,000 accounts, despite an increase in issuances of approximately 70,000 accounts. I can assure you that we will continue to use our resources in the most efficient manner to stem rising delinquencies.

STATUTE EXPIRATION

Senator DECONCINI: Once taxes are assessed, I understand that IRS has 6 years to collect them but I am informed that the amount of delinquent taxes being written off after the 6-year collection period ends is on the rise. Short of pouring more and more staff and dollar resources into IRS, what specific efforts can you and will you undertake to collect these taxes before the expiration of the 6-year collection period? How much was written off in fiscal year 1980 and 1981 because the 6-year collection period expired?

Mr. EGGER: Although total dollars lost due to the expiration of the 6-year collection period increased in FY 1982 to $653,860,074 versus FY 81s' $539,211,608, that amount as a percentage of total collections was less than one-half of one percent for both FY 1981 and FY 1982.

The majority of these delinquent taxes are for accounts where we determine the taxpayer does not have the financial ability to pay. During the 6-year collection period we do continue to collect on some of those accounts through refund offsets and payments resulting from our federal tax lien attaching a taxpayer's equity in the sale of assets. If the taxpayer's financial condition improves, we will contact the taxpayer to determine current ability to pay.

In FY 1980, the statute expired on $505,013,432 and in FY 1981 on $539,211,608.

REVENUE INITIATIVE

Senator DE CONCINI: In fiscal 1983, the Congress provided your agency with approximately 5,200 new positions in Appeals, Examinations, and Collections in order to go after more tax revenue owed the Government. Have you filled all of those slots and if not, what has been the obstacle in filling them? Please give us a detailed breakdwon of your hires by line item appropriation account and activity.

Mr. EGGER: Collection was authorized 4,000 new positions in FY 1983. Due to the delays and uncertainty in the FY 1983 budget process, the Service imposed some hiring restrictions whick were not removed until December 22, 1982. Despite these restrictions, we completed hiring and classroom training of the new people, in both the revenue officier and the other permanent categories.

The 1,000 additional positions in Examination have all been filled. They include 451 field revenue agents, 281 office tax auditors, 121 other examination personnel, and 147 support personnel.

In FY 1983, Appeals received a 313 average position increase over the FY 1982 budget authorization. This increase includes 225 positions for increasing the revenue flow to the Treasury and 88 positions to cope with additional workload, primarily tax shelters. Currently, there are 95 vacancies in Appeals -- 45 Appeals officers, 14 Appeals auditors and 36 other support personnel. Staffing up to FY 1983 levels was deterred in the first quarter due to hiring limitations because of the continuing resolution.

Senator DE CONCINI: The Office of Chief Counsel provides legal advice to the IRS, drafts regulations and rulings, reviews criminal cases for adequacy of the case for prosecution, and represents the IRS in Tax Court. Your fiscal year 1984 budget calls for an increase of 176 appeals officer positions and 38 attorneys for work in resolving taxpayer disputes. If the request for appeals officers is approved by the Committee, staffing in that function will have increased 43 percent since fiscal year 1982. Why is a 43 percent increase needed in Appeals Officer slots and what specifically will these additional positions be designated to do?

Mr. EGGER: The 43 percent increase in Appeals Officer staff years, between the 821 utilized in FY 1982 and the 1,176 required for FY 1984, is necessary to reduce the build-up in unresolved tax deficiencies in Appeals inventories. The dollar size of Appeals inventories has increased from $11.5 billion as of January, 1982 to $14.7 at February, 1983. This upward trend in inventory was caused by the restraints that were placed on Appeals staffing during periods when workload was increasing. The increase of 179 staff years in FY 1983 was necessary for two reasons. First, the initiative for increasing the revenue flow to the Treasury by collecting $190 million requires 135 Appeals Officers, and second, 44 staff years are required to cope with additional workload, primarily tax shelters. In FY 1984, the initiative to increase the revenue flow to the Treasury by collecting $156 million will require 135 of the total Appeals Officer staff year increase of 176. The total of 270 Appeals Officers devoted to the revenue initiative effort in FY 1984 will be expected to collect a total of $346 million. Increases in Appeals workload because of TEFRA, tax shelters and the Crude Oil Windfall Profits Tax Act of 1980 require that an additional 41 Appeals Officer staff years be requested.

REASONABLE CAUSE EXCEPTION TO ESTIMATED TAX PENALTY

Senator DECONCINI: Would you favor a change in the Internal Revenue Code to allow the abatement of an estimated tax penalty for reasonable cause?

Mr. EGGER: Yes. Even though taxpayers are not required to pay in installments 100 percent of their estimated tax, and are provided with safe havens enabling them to avoid penalties for an otherwise underpayment of tax, there are situations where a reasonable cause exception to an underpayment penalty is warranted. Obvious examples are the death or serious illness of the taxpayer or of an individual having sole authority to execute the return or make a payment of tax, the unavoidable absence of the taxpayer or such individual, destruction by fire or other casualty of the taxpayer's place of business or business records, and the inability of the taxpayer to determine the amount of tax due for reasons beyond the taxpayer's control. These reasons, plus others, are accepted by IRS as valid excuses for failure to file a return, make a deposit of tax, or to pay tax when due (under reasonable cause exceptions provided in the law).

Senator DECONCINI: If such a change were made, do you envision administrative problems or additional costs to the Government?

Mr. EGGER: No particular administrative problems would be anticipated, assuming that strict guidelines were followed by IRS in abating an estimated tax penalty for reasonable cause. However, there would be additional costs to the Government. These relate to the administration of the reasonable cause provision and to the abatement of the penalty in those instances where IRS deemed that a reasonable cause for the underpayment of estimated tax had been demonstrated by the taxpayer. Because the number of taxpayers who might use a reasonable cause exception cannot be determined, it is not possible to estimate the cost.

EMPLOYER CONTRIBUTIONS TO HEALTH INSURANCE PLANS

Senator DECONCINI: Have you done any studies to show which income-class of taxpayer would be affected most heavily by this proposed change and if so, what do those studies show?

Mr. EGGER: The Service has not done any studies in this area. Additionally, we understand that the Treasury Department has done no studies in this area either.

Senator DECONCINI: What was the rationale for selecting this particular fringe benefit rather than some of the others, such as educational assistance, or prepaid legal service plans?

Mr. EGGER: Because the Service is primarily concerned with tax administration instead of policy, the office of Tax Legislative Counsel at the Treasury Department was contacted concerning your question. They informed us that the major purpose of the Administration's proposal is health care cost containment.

TAX EQUITY AND FISCAL RESPONSIBLITY ACT AND THE 1983 REVENUE INITIATIVE

Senator DECONCINI: Why should this Committee approve another substantial dose of IRS staffing increases to implement the new tax act when we just finished approving the addition of 5,200 new slots to bolster IRS operations? Can't you make do with the huge influx of new positions we gave you in 1983 and if not, why not?

Mr. EGGER: Senator DeConcini, our 1983 initiative of 5,225 positions represents an investment in the Accounts Receivable, Delinquent Returns, Examination and Appeals programs to step-up collection of past due tax accounts, follow-up on nonfilers, increase the assessment of unreported tax by examining additional returns in cases where yield is highest and expedite resolution of tax cases under appeal. This initiative to improve tax enforcement enhances the Service's ability to deal in a firm and fair way with the problems of non-compliance, and is on-going.

Our resource request of 1,775 positions in 1984 for the implementation of the Tax Equity and Fiscal Responsibility Act (TEFRA) is to specifically meet the additional work-load requirements required by provisions of the new law. These include issuing all pertinent rules and regulations; transcribing additional lines on tax forms required by withholding on interest and dividends, sales of commodities and securities, and purchases for direct sales; mailing 5.7 million certified notices to taxpayers informing them of potential levy action; receiving 86 million new information returns; allowing revenue agents and tax auditors the additional time needed during an examination to determine the applicability of new penalty provisions on over 400,000 tax returns; processing 830,000 amendment applications to tax qualified deferred compensation pension plans over a three year period; and handling administrative appeals and tax litigation.

EFFECTS OF IMPLEMENTING TAX EQUITY AND FISCAL RESPONSIBILITY ACT WITHIN EXISTING RESOURCES

Senator DECONCINI: What would be the specific effect on IRS' ability to implement and enforce the new TEFRA Act if we were to deny you the 1,775 new slots and $62.4 million? Be specific.

Mr. EGGER: In order to implement the compliance provisions of TEFRA, the Internal Revenue Service would be required to divert resources from other compliance programs. Some of the actions we would face include:

- Reducing regular examination of tax returns by almost 17,000 cases to allow agents the time needed to assert the new penalties required by TEFRA. Revenue assessments would drop by $250 million.
- Reduce the matching of information returns received on paper to less than 20 percent, with a revenue loss of $25 million.
- Reduce efforts to test compliance; for example, the examination of 3,000 "Direct Seller" tax returns. This will reduce revenue by almost $3 million.
- Absorb the cost of training current enforcement staff by diverting time from auditing

tax returns, resulting in 7,000 fewer field and office audits and a loss of $35 million in revenue.

- Absorb the cost of mailing certified notices to taxpayers informing them of potential levy action by diverting resources from collecting taxes owed but not paid, thereby reducing the amount of tax collections by about $80 million.

- Eliminate virtually all examinations of pension plans and redirecting staff to handle mandatory determination letter workload. Responses to plan sponsors' applications for approval would be greatly delayed from the current 3 to 4 months to well over one year.

WITHHOLDING ON INTEREST AND DIVIDENDS

Senator DECONCINI: Mr. Egger, obviously it is not your fault that the withholding provision is now law, although I know that you support it. It appears quite clear that the Congress is undoubtedly going to repeal the withholding provision within the next few months, meaning that you will not have to implement those new tax provisions in fiscal 1984.

What specific, total dollar and position savings can we make in your 1984 budget if the withholding provision is repealed? How many of the 1,775 new slots and $62.4 million for TEFRA result from withholding on interest and dividends?

Mr. EGGER: Senator DeConcini, we have included 92 positions and $8 million in our request to implement the provisions regarding withholding on interest and dividends. If withholding were repealed, then obviously something would have to take its place. Whatever occurs, it could have significant budget implications, substantially greater than the amount we have requested to implement withholding on interest and dividends.

MAINTAINING IRS ACTIVITIES FOR FY 1984 AT THE CURRENT 1983 LEVEL PLUS ADP SYSTEMS MODERNIZATION

Senator DECONCINI: If we were to provide you with your full request for modernizing IRS' ADP Systems (+ 600 slots and $93 million more over 1983); keep Taxpayer Service funding at current fiscal 1983 levels; and merely maintain all other IRS activities at current fiscal 1983 levels with no new position increases or funding increases beyond those mentioned above, what would be the total IRS budget request for 1984? Please break this figure down in as much detail as possible by appropriation line item accounts, as presented in your budget book, and by the appropriation line item accounts that you had in fiscal 1983 (Taxpayer Service and Returns Processing, Examinations and Appeals, Investigations and Collections, etc.)

Mr. EGGER: If our request of 600 slots and $93 million for modernizing our ADP Systems were approved and we maintained all other activities at the FY 1983 current level, the adjusted total of the Service's FY 1984 budget request would be 90,527 average positions and $3,221,991.

A chart detailing this information by appropriation is attached for insertion into the record.

INTERNAL REVENUE SERVICE
(Dollars in Thousands)

	PROCESSING TAX RETURNS AND EXECUTIVE DIRECTION		EXAMINATION AND APPEALS		INVESTIGATION, COLLECTION AND TAXPAYER SERVICE		TOTAL	
	AVE. POS.	AMOUNT	AVE. POS.	AMOUNT	AVE. POS.	AMOUNT	AVE. POS.	AMOUNT
FY 1983 Level (Includes Proposed Supplemental for Pay Increase and Medicare Requirements)	26,499	$ 890,797	34,739	$1,184,847	29,126	$ 967,368	90,364	$3,043,012
Mandatory Cost Increases, Transfers, etc.	277	51,656	47	50,766	129	52,920 1/	453	155,342
Nonrecurring, Productivity etc.	- 388	- 39,260		- 5,380		- 13,118	- 388	- 57,758
ADP and Systems Modernization	322	67,499			275	25,501	597	93,000
Less: Savings from Automated Collection System					- 499	- 11,605	- 499	- 11,605
FY 1984 ADJUSTED TOTAL	26,710	$ 970,692	34,786	$1,230,233	29,031	$1,021,066 2/	90,527	$3,221,991

1/ Includes $5 million in additional mandatory cost to continue Taxpayer Service at FY 1983 program level.
2/ Resources for Taxpayer Service in FY 1984 total 4,519 average positions and $155,897 thousand.

REVENUE INITIATIVE

Senator DE CONCINI: You indicate on page 4 of your summary statement and page 3 of your detailed statement that 275 new slots and $22 million will be needed in 1984 to follow through on the non-compliance collection and examination enhancements that we gave you last year. You go on to say that adding these positions and funds will allow employees to work overtime to collect unpaid tax accounts, resolve disputed tax deficiencies, and litigate tax cases before the courts. Why can't you continue this effort with the 5,225 new hires we granted you last year--why do you need another wave of IRS bureaucrats and $22 million more to keep the effort going?

Mr. EGGER: Our request for 275 additional average positions and $22 million is needed to follow through on the Revenue Initiative begun in fiscal year 1983. Of the 275 average positions, 225 and $11.4 million will be used for Appeals personnel to reduce the inventory of unresolved tax deficiencies and penalties which currently totals almost $14 billion. These resources will be applied to disposing of large dollar disputes, resulting in the assessment of over $150 million in tax and penalties. The remaining 50 average positions and $2.7 million will be used to settle almost 1,400 cases to reduce the tax litigation backlog. Additionally, the $22 million includes $7.6 million in overtime funds to enable our Collection personnel to collect some $100 million in unpaid taxes.

PRESIDENT'S TASK FORCES AGAINST DRUGS AND ORGANIZED CRIME

Senator DE CONCINI: Can you tell us briefly now and in detail for the record what, specifically, IRS personnel will be doing in the Task Forces in fiscal year 1984?

Mr. EGGER: The Internal Revenue Service is, and has been, committed to the investigation of high-level narcotics traffickers, not only because of the significant amounts of unreported income involved but also to maintain public confidence in their perception that the tax laws are equitably administered. The IRS focuses its investigative efforts on upper echelon narcotics traffickers and/or financiers who commit tax and currency violations.

Because narcotics occupies such a prominent position in the hierarchy of illegal source income areas, it presently accounts for approximately 20% of the IRS Criminal Investigation total investigative time. In fiscal year 1982, 729 major narcotics traffickers were placed under criminal investigation and the Service recommended that 343 narcotics traffickers be prosecuted for tax violations and related crimes. During FY 1982 there were 180 indictments and 121 convictions of major narcotics traffickers. The sentences received by these individuals were substantial. Seventy-six percent of those convicted received prison sentences which averaged 65 months. In addition, the Examination Division made over $180 million in assessments in the narcotics area in FY 1982.

Because of our past successes and our continued active involvement in joint narcotics grand jury investigations, the IRS has been allotted 220 positions for the new Drug Enforcement Task

Forces. This is an increase of approximately 10% of the Criminal Investigation Division's current staffing.

By combining the resources of the various agencies, more significant cases with a greater likelihood of prosecution can be developed. Evidence of the narcotics trafficker's source of funds (developed by the other federal law enforcement agencies), when coupled with the evidence of the trafficker's accumulation of assets, (determined by the IRS) results in a greater probability of convicting those high-level narcotics traffickers and financiers, who had previously been immune from prosecution.

In addition to utilizing our financial investigative expertise to investigate the narcotics traffickers, the Service will also investigate money laundering operations under Title 31. These money laundering operations, which involve money laundering specialists and corrupt bankers and brokers, are utilized by the sophisticated narcotics trafficking organizations of today to conceal their vast wealth accumulated in the illicit drug trade.

The Internal Revenue Service is fully committed to the Administration's increased drive against organized crime and narcotics trafficking. The Service has a prominent role in the Drug Enforcement Task Forces and as such will make full use of its financial investigative expertise in the areas of tax law enforcement. The Service will also have an impact in the areas of forfeiture, jeopardy assessments, and terminations, which will enable the Government to seize the assets and profits derived from high-level drug trafficking.

RECRUITING AND TRAINING

Senator DECONCINI: Because the final decision to answer tax law questions was not made until shortly before the filing season started, did IRS encounter problems recruiting telephone and walk-in assistors and properly training them to provide accurate answers?

Mr. EGGER: The IRS moved quickly to implement the restoration of funding to FY 1983 Taxpayer Service programs. However, the late date at which funding was restored did provide a considerable challenge in instituting tax assistance. Nevertheless, during December 1982, and January 1983, the Service successfully hired over 1,000 additional employees using special procedures approved by the Office of Personnel Management. These new employees were trained to provide answers to taxpayers seeking tax law assistance.

TELE-TAX SERVICE

Senator DECONCINI: Is the Tele-Tax System more beneficial from a cost standpoint than providing direct answers by telephone or at walk-in offices?

Mr. EGGER: Yes, the Tele-Tax information network is more cost effective primarily because no staffing is required. In addition, Tele-Tax is not a toll-free service and therefore telephone circuitry is less costly.

Senator DECONCINI: Has the Tele-Tax program been well utilized so far? How are you measuring whether this program provided the assistance desired by the calling taxpayers?

Mr. EGGER: Thus far, it appears that Tele-Tax has been well utilized. As of March 5, 1983, Tele-Tax received over one million calls nationwide. We are able to determine taxpayer reaction to the service by conducting a survey during the filing period that asks a sample of callers at the end of each tape whether the information they heard answered their question completely, partially or not at all. As of March 5, 1983, 36% of the taxpayers responding to the survey felt they received a complete answer; 48% felt they received a partial answer and 16% felt they received no answer.

Senator DECONCINI: What effect is the Tele-Tax system having on the number of toll-free telephone calls received and on the number of tax questions answered at walk-in offices?

Mr. EGGER: During the period of January 3, 1983 through March 5, 1983, we received approximately 11.1 million toll-free calls, over one million Tele-Tax calls and 2.3 million walk-ins. During the same period last year we received 12.1 million toll-free calls and 2.8 million walk-ins. We are unable to determine if Tele-Tax had any role in reducing taxpayer contacts. At the end of the filing period, we will attempt to assess the impact Tele-Tax had on telephone demand.

IMPACT ON VOLUNTARY COMPLIANCE

Senator DECONCINI: How are recent proposals to cut back on taxpayer assistance justified in view of the possible impact on voluntary compliance? Have any recent studies by IRS or others shown that voluntary compliance would not decline if IRS cut back on assistance?

Mr. EGGER: The Service has not conducted a formal analysis of what effect taxpayer assistance has on compliance. We believe, however, that taxpayers who request IRS assistance want to comply. Consequently, any change in compliance may be more related to the taxpayer's desire to comply or not to comply than to the effects of assistance provided. We expect, therefore, that the cutback in taxpayer assistance would have minimal effect on voluntary compliance.

ABILITY OF PRIVATE SECTOR TO PROVIDE ASSISTANCE

Senator DECONCINI: Is it realistic to expect that volunteers and commercial preparers can prepare about 2 million tax returns and answer about 25 million tax law questions not handled by IRS?

Mr. EGGER: I do not feel that our proposed FY 84 initiative will place this burden entirely on the private sector. Our FY 84 proposals do not suggest free tax assistance provided by the Service will be discontinued. Rather, we are proposing to provide tax law assistance through less labor - intensive, more efficient methods. For most individuals there will remain a wide variety of alternative forms of assistance available from the Internal Revenue. For example, all filers of record will be mailed the tax package, which contains the forms and instructions in detail to correctly prepare most returns. If the package is not sufficient, the individual can easily obtain additional forms or any of the over 90 specialized publications, using the handy order form in the tax package. Technical tax assistance will also be available through the Tele-Tax and Tax Dial systems, which provide taxpayers telephone access to pre-recorded tax information tapes.

To reach millions of taxpayers with helpful tax information, IRS will provide news releases, feature articles, clipsheets, and other print materials for daily, weekly, and specialized publications, as well as public service announcements for radio and television stations.

Also in FY 1984, IRS will again contract for production of tax information shows for telecast by Public Television stations including targeted broadcasts to special groups, e.g., Spanish-speaking/elderly, to the extent possible, and promote the use of Forms 1040/1040A and 1040EZ films and cassettes by community and library audiences. For individuals who cannot complete their returns through those alternatives, the service will continue to offer the self-help/group return preparation assistance, and will place particular emphasis on the IRS volunteer assistance programs such as VITA and TCE.

If an individual with the ability to pay for assistance elects to do so, rather than participate in any of the programs IRS will provide, we think this is proper.

Senator DECONCINI: Has IRS obtained the views of volunteer and commercial preparer groups as to their ability to fill the vacuum if IRS stops preparation and tax law question assistance? If so, what are their views.

Mr. EGGER: We have not canvassed volunteer and commercial preparer groups on their ability to assume additional assistance efforts. It is important to note however, that our proposed FY 84 program will not discontinue IRS assistance efforts but rather provide assistance through more cost-effective means which I have previously described. Therefore, we do not feel that a significant additional burden will be placed on the private sector.

TAXPAYER ASSISTANCE

Senator DE CONCINI: Do you believe your publications are written at a reading level that the average taxpayer can understand?

Mr. EGGER: For most of our publications, yes I do. We try to write our publications at the same reading level of our tax form instructions which are targeted for a mid-high school reading level.

Senator DE CONCINI: If not, are you planning to revise your publications to that level?

Mr. EGGER: Each year, most of our publications are revised for the purpose of covering changes in the tax law or to illustrate the current year's tax forms. At the same time, we evaluate the quality of the text. The necessary revisions to resolve problems are made during this review.

Senator DE CONCINI: What are your target dates for completing revisions?

Mr. EGGER: Most of our publications are designed to provide assistance to the public as they prepare their personal income tax returns during the first three and a half months of the year. Therefore, our target date for completion of the revision, printing and distribution to the public is January 1.

PROBLEM RESOLUTION PROGRAM

Senator DECONCINI: Has IRS developed and sent out a questonnaire to determine if taxpayers with persistent problems are being referred to the Problem Resolution Office. If so, do the results show an improvement since GAO's review?

Mr. EGGER: The Service has not developed a questionnaire to determine if taxpayers with persistent problems are being referred to the Problem Resolution Office. However, periodic reviews are made of incoming taxpayer correspondence and telephone calls to assure that those with problems which meet PRP criteria are being correctly identified and referred. In addition, since the initial inception of the Problem Resolution Program (PRP) in early 1977, a follow-up questionnaire has been sent to a sample of taxpayers helped by PRP to evaluate the effectiveness of the program. In October 1978, new instructions were issued for sending follow-up questionnaires based on a statistically valid sampling plan. And in March 1981, the follow-up questionnaire was revised to include questions about the number of contacts taxpayers have had with IRS about their problems before reaching PRP and the date of their first contact. These questions were added to help measure the effectiveness of Service personnel in PRP case identification.

During FY 1978, the period covered by the GAO report, 79,234 PRP cases were identified; by FY 1982, the number of cases identified had increased to 254,074, a clear indication of the improvement of both external publicity and internal case identification.

Senator DECONCINI: Will the Problem Resolution Program receive adequate support in light of the proposed budget cuts in taxpayer assistance?

Mr. EGGER: Our field executives have been directed to ensure that possible program changes in other Service activities will not affect the Problem Resolution Program. They are expected to utilize the necessary staffing to assure that the objectives of the Problem Resolution Program are met and that it is a well-managed activity which is responsive to the needs of taxpayers.

WITHHOLDING

Senator DECONCINI: How much confidence do you have that your estimates of the extent of tax noncompliance, particularly in dividends, interest, and capital gains, are accurate?

Mr. EGGER: We believe our estimates to be good, given the inherent difficulty of discovering income which is often deliberately concealed by its recipients. We are confident that our estimates for interest and dividends are not overstated because we have access to a number of different sources of information, which serve as cross checks on how much should actually be reported. While there is less corroborative information available on capital gains, we used similar estimating methods, which we feel provide reasonably accurate compliance estimates.

Senator DECONCINI: What was the basis for IRS' projections of the increase in taxes if withholding were applied to interest and dividends?

Mr. EGGER: The revenue estimates for all of the TEFRA provisions were prepared by the Office of Tax Analysis in cooperation with the Joint Committee Staff. The assumptions were described in some detail by Secretary Regan in his letter to Senator Dole. (see attached)

Mr. DECONCINI: What studies has IRS made about the economic and paperwork burdens that withholding imposes on the private sector?

Mr. EGGER: While IRS has made no systematic study of private sector costs of withholding, a rough estimate of incremental costs was provided by the Department of The Treasury to the Chairman of the Senate Finance Committee (attached).

Mr. DECONCINI: In developing your opinion that withholding is the most effective tax compliance tool, how much weight did you give the potential cost of burdens that this tool imposes on private businesses and individual savers?

Mr. EGGER: IRS is, of course, very concerned with balancing the needs of cost-effective tax administration against equitable distribution of reporting and withholding burdens. While private sector costs must be considered, IRS considers private sector costs of withholding to be quite small compared to the cost of direct enforcement necessary to capture similar levels of taxes due and owing to the government. For individual savers, the burden of withholding is negligible -- about $.50 on $1,000 of savings if withholding is applied during the course of the year. Furthermore, if the paying institutions elect to withhold at the end of the year, there would be no additional burdens placed on individual savers. Additionally, those individuals most likely to incur a burden may elect to be exempted from withholding and savings institutions may elect not to withhold on accounts with interest of less than $150. Finally, withholding on interest and dividends can be viewed as being consistent with the "pay as you go" concept of tax administration, which helps keep taxpayers from having to confront a balance due situation on April 15.

March 2, 1983

Dear Mr. Chairman:

The purpose of this letter is to respond to the questions raised during my appearance before the Committee on February 3 concerning the revenue estimate for interest and dividend withholding and the current level of underreporting of interest and dividend income.

The revenue estimate for withholding was derived in the following manner:

The base for the estimate is the amount of unreported interest and dividend income. Excluded from this base (throughout this letter) are interest and dividend payments that are not affected by the withholding rules, such as interest paid by individuals. Based on the Internal Revenue Service's research programs, including the Taxpayer Compliance Measurement Program, it is estimated that, at 1983 levels, $25 billion of interest and dividend income that should be reported on tax returns will not be reported in the absence of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA).

We wish to make clear that this estimate of the interest and dividend tax gap is based upon conservative assumptions. An estimate based on all payments of interest and dividends and on claimed deductions of interest (the National Income Accounts analysis) by the Bureau of Economic Analysis of the Department of Commerce concludes that the tax gap of unreported interest and dividends is almost twice as large as that estimated by the Treasury Department. We believe, however, that the absence of certainty as to the cause of this discrepancy requires the use of the more conservative estimate of the size of the gap of unreported interest and dividends, rather than the much larger number indicated by the National Income Accounts, or an average of the two numbers.

Approximately 86 percent of all interest and dividend payments -- including most interest paid by banks and thrift institutions -- were subject to information reporting prior to enactment of TEFRA. As mentioned above and based on the conservative estimating techniques also noted above, the amount of interest and dividend income earned but not reported prior to TEFRA was $25 billion (interest earned but not reported was about $18 billion and unreported dividend income was about $6.5 billion).

For interest payments on bearer obligations and on most Federal obligations, there was no information reporting required prior to TEFRA. For payments not subject to information reporting, the rate of compliance was only about 78 percent. Thus, in the absence of any of the TEFRA provisions 22 percent ($7 billion) of interest on obligations not subject to information reporting would go unreported by taxpayers. Because the amount of payments not subject to information reporting was small compared to the amount of payments for which information reports were required to be filed, the combined rate of compliance for all interest and dividends without the TEFRA provisions is estimated to be about 90 percent, leaving the total gap of $25 billion mentioned above.

A comprehensive system of information reporting will increase the rate of compliance on all payments to 91 percent. Thus, the broadened information reporting introduced by TEFRA will, by itself, only reduce the amount of unreported interest and dividends to $21 billion, still an unacceptable gap.

The withholding provisions in TEFRA reduce the revenue loss from the $21 billion that goes unreported even after the broadened information reporting in TEFRA. The 10 percent withholding on that amount improves compliance by $2.1 billion of additional tax collections at 1983 levels, even if withholding causes no further increase in reporting. (The total revenues raised through 1988 from the improved compliance due to withholding is $13.1 billion.) In fact, compliance will increase more than this amount because some persons who do not now report receipts of interest and dividends (and who would not report such receipts even under the expanded information reporting provided by TEFRA) will be inclined to report and pay tax on the entire payment once such payments are subject to withholding. The amount of induced compliance resulting from this tendency again was conservatively estimated.

It is useful to compare the above figures on noncompliance and unpaid taxes on interest and dividend income with corresponding experience with respect to wages subject to withholding. Not only is the compliance rate on wages significantly higher than that on interest and dividends, but even when wage income is not reported on tax returns, taxes are collected through the existing withholding system. As a result essentially 100 percent of taxes due on wages subject to withholding are collected.

With respect to payments that are currently reported by taxpayers, the new withholding provision will raise a small amount of revenue -- about $0.3 billion -- generated on an annual basis because of an acceleration of tax collections. In addition, in the period immediately after withholding becomes effective, there will be a one-time acceleration of receipts of $3.9 billion. This is because no credits from prior year withholding will offset current withholding receipts in the first year. This acceleration of tax payments required by withholding will treat taxes due on interest and dividends essentially like taxes due on wages. Taxes on all these sources of income will be paid on a timely and fair basis, as the income is earned.

The enclosed table shows the breakout of the three components of the withholding revenue estimate: increased compliance resulting from expanded information reporting, increased compliance from the imposition of withholding, and the acceleration or speedup of tax payments.

I would like also to correct any misleading impression that may have arisen from a 1981 study undertaken by the Internal Revenue Service. Some persons have asserted that this study found a 97 percent rate of compliance for all dividends and interest. That is incorrect. This study was not designed to measure the level of interest and dividend compliance generally. Rather, the study focused on certain limited situations that are not at all representative of the overall compliance problem. Specifically, the study measured noncompliance only in cases meeting each of the following three conditions:

(i) the taxpayer had filed a proper tax return,

(ii) the payor had filed an information return (Form 1099), and

(iii) the information return was readable and contained a proper taxpayer identification number.

Unfortunately, one or more of these conditions are not met in a great many situations. Many taxpayers who should file tax returns do not. Currently, between 5 and 6 million taxpayers fail to file required tax returns. In addition, over 11 percent of information returns for interest and dividends lack a taxpayer identification number, or show an improper number. For taxpayers who file income tax returns on a timely basis, and provide payors with information that enables them to file a proper Form 1099, it is not surprising that voluntary compliance is at a materially higher level than occurs in situations where either a tax return is not properly filed or accurate information is not provided to the payor. As reported above, it is estimated that prior to TEFRA the rate of taxpayer compliance for interest and dividend income of all taxpayers is 90 percent, based on conservative assumptions.

Many have suggested that the compliance levels sought through interest and dividend withholding could be achieved by a vastly enlarged IRS audit program. This is simply not a realistic proposal. An attempt to achieve the compliance levels that will be obtained under withholding would require literally millions of new taxpayer contacts, audits, and legal proceedings. Consequently, attempts to resolve the compliance problem through a stepped-up audit program would be perceived correctly as harrassment. This would seriously damage ongoing efforts to insure honest taxpayers that our tax system is fair and uniformly applied in such a way as to encourage the highest degree of voluntary compliance with the law.

Sincerely,

Donald T. Regan

Donald T. Regan

The Honorable
Robert Dole
Chairman, Senate Finance Committee
Washington, D. C. 20510

Revenue Effect of Withholding on Interest and Dividends
(Including Expanded Information Reporting)

($ billions)

	Fiscal Years						Cumulative total
	1983	1984	1985	1986	1987	1988	(1983-1988)
Reporting (compliance) .	0.1	0.4	0.7	0.9	1.2	1.3	4.6
Withholding:							
Interest:							
Speedup	0.7	1.9	0.2	0.2	0.2	0.2	3.4
Compliance	0.2	1.5	1.7	1.7	1.8	1.9	9.0
Total interest ...	0.9	3.5	1.9	1.9	2.0	2.2	12.4
Dividends:							
Speedup	0.2	1.1	0.1	0.1	0.1	0.1	1.7
Compliance	0.1	0.7	0.8	0.8	0.9	0.9	4.1
Total dividends ..	0.2	1.8	0.8	0.9	1.0	1.1	5.8
Total:							
Speedup	0.9	3.0	0.3	0.2	0.3	0.4	5.1
Compliance ...	0.3	2.3	2.4	2.5	2.7	2.9	13.1
Total withholding.	1.1	5.3	2.7	2.8	3.0	3.2	18.2
Grand total:							
Speedup	0.9	3.0	0.3	0.2	0.3	0.4	5.1
Compliance	0.4	2.7	3.1	3.5	3.8	4.2	17.7
Total	1.2	5.7	3.4	3.7	4.2	4.5	22.7

Office of the Secretary of the Treasury
Office of Tax Analysis

March 1, 1983

Note: Details may not add to totals due to rounding.

Dear Mr. Chairman:

I am concerned about certain exaggerated estimates of the costs financial institutions may incur to institute withholding on interest and dividends. While precise estimates of the costs that will be incurred are not available, some of the figures that have been discussed can be clearly shown to be exaggerations.

Estimates of the total startup costs of $3 billion are greatly overstated. Such estimates are accounting cost allocations rather than estimates of genuine incremental costs that a bank will incur. That is, such estimates include costs that would be incurred even without the new withholding law. True incremental costs will be significantly below cost estimates that include all allocated costs.

A few banks, ranging from small to very large institutions, have informally and confidentially supplied the Treasury Department with their estimates of the administrative startup costs of withholding. We have far too little data to constitute a useful sample, but for those banks on which we have figures, true incremental startup costs appear to average less than $2.00 per account. If this small number of banks is representative of all payors of interest and dividends (including banks, savings and loan institutions, mutual savings banks, and credit unions), then total startup costs would be approximately $600-$700 million. These costs can be offset by the extended float allowed on withheld amounts and by the income tax deductions available for such costs. Since we have so little data, we cannot be certain that total startup costs are within this range. Nonetheless, it does appear certain that startup costs are only a fraction of the claimed $3 billion.

If enough resources were allocated to the Internal Revenue Service to provide the same improvement in compliance and to collect the same additional revenues as will be collected under withholding, the costs to the Government would be well above the estimated $600-$700 million in costs to financial institutions to institute withholding. Small increases in IRS enforcement efforts may recoup relatively high revenues per extra dollar of IRS costs. The enormous increase in IRS audit activity that would be needed to raise $3 billion (an increase in audits by well more than 200 percent) would, however, inevitably result in much lower additional revenues per dollar of IRS costs. Indeed, the incremental IRS costs required to raise the almost $3 billion a year in revenues gained from withholding would be well above $1 billion, perhaps as much as $2 billion. Further, this additional effort would involve such a dramatic increase in IRS staffing that it would take several years for the IRS to add and train the needed agents.

It must be remembered that attempts to reduce noncompliance through greater IRS efforts involve significant costs to individual taxpayers in addition to the financial cost to the IRS. These arise from the burden more than two million additional audits will impose on taxpayers' time and resources. Inevitably these audits will inconvenience many taxpayers who have correctly paid their taxes.

In contrast, withholding on interest and dividends only requires those taxpayers who correctly pay their taxes on interest and dividend income to pay some of those taxes during the year rather than at the time that they file their returns. Requiring those who receive interest and dividends to pay a portion of their taxes as promptly as wage earners pay is not, in my view, unfair.

I recognize that banks must incur some costs to institute a system of withholding on interest and dividends. As I stated above, those costs have been frequently exaggerated. Nonetheless, there is legitimate concern that we not impose an undue burden on the banking system. If, at some later time, it is reliably demonstrated that the true incremental costs that most banks must incur exceeds the value to the banks from the extended float on the withheld amounts that has been allowed, then I would support allowing the extended float for a longer period.

Sincerely,

Donald T. Regan

Donald T. Regan

The Honorable
Robert Dole
Chairman, Senate Finance Committee
Washington, D.C. 20510

FLAT TAX

Senator DECONCINI: Last year during hearings before this committee you indicated that "the time had come to consider a flat-rate tax?" What is the administration doing to pursue such a proposal?

Mr. EGGER: I understand that the Treasury Department is continuing to evaluate various so called "flat tax" proposals.

Senator DECONCINI: You are coming to Congress to request an additional $62 million and 1800 positions, primarily as a result of TEFRA and the withholding provisions. Would such increases have been called for if we had a flat rate income tax? Indeed, is it not reasonable to believe that the IRS bureaucracy could be cut back dramatically, if we had a flat-rate tax structure?

Mr. EGGER: Since the term "flat tax" has been used to describe a wide variety of proposals, with varying degrees of tax simplification, we cannot make any estimate of the resource impact of such proposals. Under some "pure" flat tax, it is possible that there could be a small reduction in IRS resources. Under other flat tax proposals, there might be no reduction. It should be noted that flat tax proposals are directed towards the individual income tax and would not alter the area of employment and business taxes where a large part of IRS resources are expended. Additionally, the flat tax proposals would have no impact on the resources expenditures of the Service in regulating pension plans and exempt organizations.

Senator DECONCINI: What effect would a flat-rate tax have on compliance? Do you expect that "cheating" would decrease under a low across-the-board flat rate of taxation?

Mr. EGGER: We do not have data to make such an estimate. However, it is fair to say that at least some portion of noncompliance is due to complexity, high rates, and perceived inequity.

SUBCOMMITTEE RECESS

Senator ABDNOR. Well, with that we will conclude our hearing today, and we will stand in recess until 2 p.m. Thursday, April 7, when we will hear from the Office of Personnel Management, the Merit System Protection Board and the Office of Special Counsel, Federal Labor Relations Authority, U.S. Tax Court, the Advisory Commission on Intergovernmental Relations, and the Administrative Conference of the United States.

It sounds like we have quite an agenda.

So with that, I would say, thank you again for your time. And we stand in recess.

[Whereupon, at 4:35 p.m., Tuesday, March 22, the subcommittee was recessed, to reconvene at 2 p.m., Thursday, April 7.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1984

THURSDAY, APRIL 7, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2:30 p.m., in room SD–124, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF DONALD J. DEVINE, DIRECTOR

ACCOMPANIED BY:

- **JAMES W. MORRISON, JR., ASSOCIATE DIRECTOR, COMPENSATION GROUP**
- **FRANK D. TITUS, CHIEF, BUDGET AND MANAGEMENT INFORMATION DIVISION, COMPENSATION GROUP**
- **GEORGE NESTERCZUK, ASSOCIATE DIRECTOR, ADMINISTRATION GROUP**
- **DONALD R. WILLIAMS, ASSISTANT DIRECTOR, OFFICE OF FINANCE AND BUDGET**
- **SIDNEY M. CONLEY, BUDGET OFFICER**

OPENING STATEMENT

Senator ABDNOR. Good afternoon.

The subcommittee will come to order. Our witnesses today will present the budget request and justifications for the Merit Systems Protection Board, the Office of Special Counsel, the Office of Personnel Management, and Administrative Conference of the United States, the Advisory Commission on Intergovernmental Relations, the Federal Labor Relations Authority, and the U.S. Tax Court.

We have quite an afternoon ahead of us. I assure everyone testifying today that the entire written statements will be made a part of the record. I would appreciate it if you could give us the highlights and summarize, and we'll go from there.

Our first witness, who is ready to go, is Mr. Donald Devine, Director of the Office of Personnel Management.

We're pleased to have you with us, Mr. Devine, and I know you have quite a group with you. I would ask you to go ahead and proceed to introduce your people if you like and then go from there.

BUDGET REQUEST

Mr. DEVINE. Thank you, very much, Senator. I know you do have a very full schedule today so I'll try to be as brief as possible. You have the statement introduced into the record. I will quickly summarize that we have a request in our salary and expense budget of $110.5 million, representing an increase of $8.7 million, or 8.6 percent over fiscal year 1983; $5.1 million of that is an increase in GSA space rental, and telecommunications services; and $3.9 million is requested for a competitive replacement of computer capacity. Actually, the amount dedicated to direct services has gone down marginally, although we've been able to reprogram our expenses so that we can actually increase the services that we've been able to offer through economies.

The second general area is the payment to the civil service retirement and disability fund which represents the overwhelming portion of the money that we are requesting. We are requesting $15.9 billion, including $3.9 billion to be appropriated and $12 billion in permanent indefinite appropriation, an increase of $341 million, or 2.2 percent.

We're also submitting separate legislation to make major changes in our retirement system, with estimated savings of $1.8 billion in fiscal year 1984, and $19.2 billion over fiscal years 1984 to 1988.

Third, we are requesting a Government payment for annuitants, employee health benefits of $1.5 billion, an increase of $164 million or 12 percent to adjust for a growing number of enrollees and premium increases which will be effective in January 1984.

We are also submitting separate legislation to make economies and changes in the Federal employees health benefit programs, of approximately $500 million in fiscal year 1984, and $8.8 billion between fiscal years 1984 and 1988.

Finally we are introducing or requesting a supplemental appropriation, salaries and expenses of $1.8 million in budget authority and an additional $1.6 million in trust fund limitations to fund the cost of the October 1982 civilian pay raise for OPM employees.

The second part of that request is $342 million for the first of 30 annual payments for the unfunded liability resulting from the 1982 pay adjustment for general schedule and wage board employees; and a revolving fund appropriation request to spend $12,000 in entertainment expenses within the President's Commission on Executive Exchange, allowing them to spend money that has been raised through private sources as a result of a new change in S. 3103.

And finally, a request to restore $2,500 to the official reception and representation account. Some place in the process $2,000 was left out of the final printing.

That summarizes our requests for appropriations, Mr. Chairman, and I would be happy to answer any questions you may have.

PREPARED STATEMENT

Senator ABDNOR. Well thank you, Mr. Devine, for a very precise statement. As I said your entire statement will be made a part of the record.

[The statement follows:]

Statement of Donald J. Devine

GOOD AFTERNOON. I AM PLEASED TO BE HERE TO DISCUSS WITH YOU THE OFFICE OF PERSONNEL MANAGEMENT'S BUDGET REQUESTS FOR FISCAL YEAR 1984 AND OUR SUPPLEMENTAL BUDGET REQUESTS FOR FISCAL YEAR 1983.

MY COLLEAGUES THIS AFTERNOON INCLUDE MR. JAMES MORRISON, ASSOCIATE DIRECTOR OF THE COMPENSATION GROUP, MR. GEORGE NESTERCZUK, ASSOCIATE DIRECTOR OF THE ADMINISTRATION GROUP, MR. DON WILLIAMS, ASSISTANT DIRECTOR OF THE OFFICE OF FINANCE AND BUDGET AND MR. SIDNEY CONLEY, BUDGET OFFICER.

BUDGET SUMMARY

LET ME BEGIN BY SUMMARIZING OUR FY 1984 BUDGET REQUEST. THIS REQUEST TOTALS APPROXIMATELY $17.5 BILLION IN BUDGET AUTHORITY FOR FEDERAL FUNDS, AN INCREASE OF ABOUT $.5 BILLION, OR 3% OVER FY 1983. THIS IS DIVIDED INTO THREE SEPARATE APPROPRIATION REQUESTS: $110.5 MILLION FOR SALARIES AND EXPENSES TO FUND THE LEGISLATED PROGRAM RESPONSIBILITIES OF THE AGENCY; $15.9 BILLION FOR THE PAYMENT TO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND TO PROVIDE FOR THE CONTRIBUTION OF THE GOVERNMENT'S SHARE OF RETIREMENT COSTS; AND APPROXIMATELY $1.5 BILLION FOR THE GOVERNMENT PAYMENT TO ANNUITANTS, EMPLOYEE HEALTH BENEFITS TO FUND THE GOVERNMENT'S SHARE OF HEALTH BENEFITS COSTS FOR ANNUITANTS AND SURVIVORS.

OVER 98% OF THE INCREASE FROM 1983 TO 1984 (AS WELL AS OVER 99% OF THE 1984 BASE) IS FOR PAYMENT OF THE RETIREMENT AND INSURANCE BENEFITS OF FEDERAL WORKERS WHICH WE ARE REQUIRED TO REQUEST UNDER EXISTING LEGISLATION. THIS PART OF THE BUDGET REQUEST WILL BE REDUCED BY $1.4 BILLION IN FY 1984 IF THE LEGISLATION WE ARE PROPOSING TO REFORM BOTH THE FEDERAL RETIREMENT AND HEALTH BENEFITS SYSTEMS IS PASSED.

OUR REMAINING REQUEST INCLUDES $48.5 MILLION IN TRANSFER AUTHORITY TO ADMINISTER THE RETIREMENT AND INSURANCE PROGRAMS, AND $95.3 MILLION TO PROVIDE REIMBURSABLE SERVICES — PRIMARILY EMPLOYEE TRAINING AND BACKGROUND INVESTIGATIONS.

SALARIES AND EXPENSES

AS I STATED, WE ARE REQUESTING $110,546,000 FOR SALARIES AND EXPENSES. THE RESOURCES REQUESTED FOR THIS APPROPRIATION REPRESENT A NET INCREASE OF $8,737,000 OR 8.6% OVER FY 1983 WHICH IS CONCERTRATED IN TWO AREAS: MANDATORY PAYMENTS AND REPROCUREMENT OF A COMPUTER SYSTEM. ALTHOUGH, THE RESOURCES REQUESTED FOR THIS APPROPRIATION INCREASE FROM FY 1983 TO FY 1984 THE MONEY ACTUALLY AVAILABLE FOR US TO CARRY OUT OUR PROGRAM RESPONSIBILITIES IS DECREASING SLIGHTLY. THERE ARE TWO REASONS FOR THIS. FIRST, WE MUST REQUEST $3.9 MILLION ADDITIONAL FOR A COMPETITIVE COMPUTER REPLACEMENT ACTION DUE TO OUR CURRENT SYSTEM'S CONTRACT EXPIRING DURING FY 1984. THE MANUFACTURER OF THIS EQUIPMENT HAS ANNOUNCED THAT THE SYSTEM HAS BEEN REPLACED BY A MORE MODERN MODEL. HOWEVER, UPGRADING OUR SYSTEM TO THIS NEW MODEL WOULD REQUIRE HARDWARE, OPERATING SYSTEM AND APPLICATION SOFTWARE CHANGES OF SIGNIFCANT COST. FURTHER, OUR SYSTEM'S MANUFACTURER HAS ANNOUNCED PLANS TO DISCONTINUE SERVICE (INCLUDING MAINTENANCE, SPARE PARTS, AND REPAIR ACTIVITIES) ON OUR SYSTEM AFTER SEPTEMBER 30, 1984. THEREFORE, COSTS FOR MAINTAINING OUR CURRENT SYSTEM WOULD RISE DRAMATICALLY ONCE THE CURRENT CONTRACT EXPIRES, AND PARTS AND REPAIRS WILL BECOME MUCH MORE DIFFICULT TO PROCURE. SECOND, THE RATE WE MUST PAY GSA FOR SPACE RENTAL AND LONG DISTANCE TELEPHONE SERVICE INCREASES SUBSTANTIALLY IN 1984. THE OPM IS REQUESTING AN INCREASE OF $5.1 MILLION IN THE MANDATORY PAYMENTS PROGRAM TO FUND THESE COSTS. OUR S&E DOLLAR LEVEL FOR 1984, WHEN ADJUSTED FOR THESE TWO ITEMS IS ACTUALLY $280,000 LESS THAN FY 1983 OPERATING LEVELS. THIS REDUCTION COMES ON TOP OF A PROGRAM DECREASE OF 19% FROM FY 1981 TO FY 1983. HOWEVER, WE HAVE CAREFULLY REALIGNED OUR FUNCTIONS AND RESOURCES TO MINIMIZE THE IMPACT OF THESE REDUCTIONS ON THOSE PROGRAMS WE VIEW AS HIGHEST PRIORITY.

I WOULD LIKE TO SPEND A FEW MINUTES AND REPORT TO YOU SOME OF OUR ACCOMPLISHMENTS SINCE I HAVE TAKEN OFFICE. DURING THE PAST YEAR, WE HAVE GIVEN MUCH ATTENTION TO TWO AREAS WHICH WE VIEW AS MAJOR RESPONSIBILITIES OF OUR AGENCY: PROTECTING THE INTERGRITY OF THE PERSONNEL SYSTEM AND RESTRUCTURING THE PERSONNEL SYSTEM TO MAXIMIZE THE PERFORMANCE POTENTIAL OF FEDERAL EMPLOYEES.

UPHOLDING THE INTEGRITY OF A PERSONNEL SYSTEM AS LARGE AS THAT OF THE FEDERAL GOVERNMENT IS A DIFFICULT AND COMPLEX TASK. MERIT STANDARDS MUST NOT BE COMPROMISED AND EMPLOYEE RIGHTS NEED TO BE PROTECTED. FOR THIS REASON, WE HAVE WORKED TO ASSURE THE PROPER APPLICATION OF CIVIL SERVICE LAWS, RULES, AND REGULATIONS.

THIS ADMINISTRATION HAS PLEDGED TO REDUCE FEDERAL EMPLOYMENT AND IT HAS. OPM HAS HELPED ADMINISTER THIS REDUCTION IN THE MOST EFFICIENT AND HUMANE WAY. NON-DEFENSE CIVILIAN EMPLOYMENT HAS BEEN REDUCED BY 113,105 INDIVIDUALS FROM THE TIME THIS ADMINISTRATION ENTERED OFFICE TO DECEMBER 1982 (69,727 FTE). IMPORTANTLY, LESS THAN 10% OF THIS REDUCTION (11,158) WAS ACHIEVED THROUGH REDUCTION IN FORCE (RIF) PROCEDURES, SO THAT THIS ADMINISTRATION HAS MET ITS PLEDGE TO ACHIEVE THESE REDUCTIONS OVERWHELMINGLY THROUGH THE MOST HUMANE MEANS OF ATTRITION.

THE BASIC PROGRAM FOR ASSISTING DISPLACED EMPLOYEES IS THE REEMPLOYMENT PRIORITY LIST (RPL) WHICH IS REQUIRED OF ALL AGENCIES BY OPM REGULATIONS. AGENCIES MUST ENROLL DISPLACED EMPLOYEES IN THE RPL. UNDER THIS PROGRAM, AGENCIES ARE EFFECTIVELY BLOCKED FROM HIRING OUTSIDE APPLICANTS AS LONG AS DISPLACED EMPLOYEES ARE ENROLLED ON THEIR RPL. TWO OTHER PROGRAMS ARE ADMINISTERED BY OPM TO SUPPLEMENT AGENCY EFFORTS UNDER THEIR OWN RPL. THE DISPLACED EMPLOYEES PROGRAM (DEP) PROVIDES ASSISTANCE TO DISPLACED EMPLOYEES WHO CANNOT BE PLACED IN THEIR OWN AGENCIES AND THE INTERAGENCY PLACEMENT ASSISTANCE PROGRAM (IPAP) ASSISTS EMPLOYEES FACED WITH POSSIBLE SEPARATION AS A RESULT OF RIF. AGENCIES ARE REQUIRED TO ENROLL THEIR AFFECTED EMPLOYEES IN THESE PROGRAMS. OPM WILL NOT AUTHORIZE AN AGENCY TO HIRE FROM REGISTERS OR UNDER DIRECT HIRE AUTHORITY IF QUALIFIED DEP'S ARE AVAILABLE AND IPAP CANDIDATES MUST BE GIVEN FULL CONSIDERATION BEFORE OUTSIDE CANDIDATES.

EXTENSIVE EFFORTS TO PUBLICIZE THESE PROGRAMS INCLUDED MEETINGS I HELD WITH AGENCY ASSISTANT SECRETARIES TO EMPHASIZE THE ADMINISTRATION'S STRONG SUPPORT FOR THESE PROGRAMS. IN ADDITION, THE 47 OPM AREA OFFICES CONDUCTED 169 BRIEFINGS FOR AGENCY PERSONNEL REPRESENTATIVES ON RIF-RELATED MATTERS, INCLUDING PLACEMENT PROGRAMS; TRAINED OVER 1800 AGENCY EMPLOYEES ON RIF PROCESSES AND PLACEMENT STRATEGIES; MADE 108 ON-SITE ASSISTANCE VISITS; AND DISTRIBUTED

OVER 50,000 BROCHURES EXPLAINING TO EMPLOYEES THEIR RIGHTS, BENEFITS, AND PLACEMENT OPPORTUNITIES DURING A RIF.

OPM HAS ALSO BEEN SUCCESSFUL IN CARRYING OUT ITS ROLE UNDER 5 U.S.C. 3595 AS AMENDED BY PL 97-346 TO ASSIST CAREER SENIOR EXECUTIVE SERVICE (SES) MEMBERS DISPLACED FROM THEIR AGENCIES BY RIF. OF THE 66 MEMBERS DECLARED SURPLUS SINCE 1981, OVER ONE-THIRD HAVE BEEN RETAINED IN THE SES AND ONE-HALF HAVE BEEN RETAINED IN THE FEDERAL SERVICE. THIS DEGREE OF RETENTION, IN LIGHT OF THE UNIQUE CONSTRAINTS OF THE PROGRAM, INDICATES THE SUCCESS OF OUR PIONEERING EFFORTS.

AS YOU KNOW, I BELIEVE THAT OPM'S PROPER ROLE IS IN WHAT I CALL BEDROCK PERSONNEL MANAGEMENT. DATA ON OUR WORKLOAD RESULTS FOR 1982 CLEARLY INDICATE THAT WE HAVE MADE THE INTEGRITY OF THE PERSONNEL SYSTEM--A TRADITIONAL OPM RESPONSIBILITY--OUR PRIMARY OBJECTIVE. FROM PROCESSING A LARGE VOLUME OF APPLICATIONS FOR EMPLOYMENT TO COMPLETING EVALUATIONS OF PERSONNEL ADMINISTRATION IN INDIVIDUAL FEDERAL AGENCIES, OPM HAS CONTINUED ESSENTIAL OVERSIGHT AT THE SAME OR HIGHER LEVELS THAN IN THE PREVIOUS YEAR WHEN ITS BUDGET WAS CONSIDERABLY LARGER. FOR INSTANCE, IN FY 82, WE CONDUCTED MORE EVALUATIONS OF AGENCY PERSONNEL OFFICES THAN HAD BEEN DONE IN FY 81, AND NEARLY 20% MORE EVALUATIONS OF EXECUTIVE PERSONNEL PROGRAMS. IN ADDITION, WE CONDUCTED OVER 100 EVALUATIONS OF DELEGATED PERSONNEL AUTHORITY. 744,605 EMPLOYMENT APPLICATIONS WERE PROCESSED IN FY 82, COMPARED WITH 788,132 IN FY 81; THERE WERE 89,300 EMPLOYMENT CERTIFICATES ISSUED IN FY 82, A 10% REDUCTION--BUT WITH 12.4% REDUCTION IN COSTS OF PROCESSING, AND ALTHOUGH NATIONAL AGENCY CHECK AND INQUIRY CASES DECLINED SLIGHTLY, THERE STILL WERE 243,371, COMPARED TO 277,805 IN FY 81.

A MAJOR NEW OFFICE WAS CREATED WITHIN OPM TO UPGRADE AGENCY EFFORTS IN PERFORMANCE APPRAISAL AND MERIT PAY. WE ALSO CONTINUED OUR EFFORTS TO CONSOLIDATE RELATED FUNCTIONS TO FACILITATE MORE EFFECTIVE ADMINISTRATION. A NEWLY CREATED OFFICE OF POLICY AND COMMUNICATIONS JOINS TOGETHER OUR POLICY REVIEW FUNCTION WITH THE PUBLIC AFFAIRS OFFICE. GREATER UTILIZATION OF GOVERNMENT FACILITIES IN THE PERFORMANCE OF OUR TRAINING FUNCTION HAS FURTHER REDUCED COSTS.

ONE OF THE IMPORTANT FEATURES OF THE CSRA WAS A HEIGHTENED EMPHASIS ON PERFORMANCE. ACCORDINGLY, WE HAVE DIRECTED A GREAT DEAL OF EFFORT TO THE AREA OF PERFORMANCE APPRAISAL — BY PROVIDING CONTINUING SUPPORT TO AGENCIES AS THEY IMPLEMENT AND IMPROVE THEIR SYSTEMS AND BY PROPOSING ADJUSTMENTS TO THE SYSTEMS WHICH STRENGTHEN THE PAY FOR PERFORMANCE CONCEPT. OPM HAS PROVIDED SUBSTANTIAL GUIDANCE TO AGENCIES ON THE DESIGN, IMPLEMENTATION AND ADMINISTRATION OF THESE SYSTEMS. SINCE OCTOBER 1981 (THE STATUTORY DEADLINE FOR IMPLEMENTATION), OUR EFFORTS HAVE BEEN FOCUSED ON IMPROVING THE SYSTEMS IMPLEMENTED IN THE AGENCIES. WE HAVE ISSUED GUIDANCE TO HELP AGENCIES SIMPLIFY THE DEVELOPMENT OF PERFORMANCE STANDARDS FOR MANAGERIAL POSITIONS WHILE AT THE SAME TIME IMPROVING THE PERFORMANCE APPRAISAL PROCESS FOR THOSE JOBS BY LINKING INDIVIDUAL PERFORMANCE TO ORGANIZAITONAL OBJECTIVES. WE HAVE MAINTAINED A SIGNIFICANT LEVEL OF EFFORT IN PROVIDING DIRECT TECHNICAL ASSISTANCE TO AGENCIES ON IMPROVING THE OPERATION OF THEIR PERFORMANCE APPRAISAL SYSTEMS. WE HAVE CONDUCTED NUMEROUS TRAINING COURSES AND CONFERENCES THROUGHOUT THE COUNTRY IN PERFORMANCE MANAGEMENT.

AS I HAVE STATED IN THE PAST, WE HAVE MADE POSITION CLASSIFICATION ACCURACY A MAJOR OVERSIGHT EMPHASIS. OPM CONDUCTED A CLASSIFICATION AUDIT OF A REPRESENTATIVE SAMPLE OF FEDFERAL POSITIONS NATIONWIDE AND FOUND MAJOR MISCLASSIFICATION. NATIONWIDE MORE THAN 14% OF FEDERAL JOBS ARE OVERGRADED. WE ESTIMATE THE COST OF THIS MISCLASSIFICATION TO THE TAXPAYER TO BE MORE THAN $680 MILLION A YEAR. WE FURTHER ESTIMATE THAT NEARLY HALF OF THAT COST IS ATTRIBUTABLE TO OVERCLASSIFICATION IN WASHINGTON D.C. CORRECTION OF THIS PROBLEM WILL CONTINUE TO RECEIVE MAJOR ATTENTION. THE PRESIDENT'S BUDGET DIRECTS OPM AND OMB TO TAKE WHATEVER STEPS ARE NECESSARY TO ENSURE CORRECT POSITION CLASSIFICATION AND POSITION MANAGEMENT IN THE GOVERNMENT.

REVOLVING FUND

INCLUDED IN THE AGENCY'S BUDGET REQUEST IS $82.5 MILLION IN REVOLVING FUND MONIES WHICH PROVIDE FINANCING, ON A REIMBURSABLE BASIS, FOR OPM TO PERFORM SERVICES FOR OTHER AGENCIES. THE TWO MAJOR PROGRAMS ARE THE BACKGROUND SECURITY INVESTIGATIONS CONDUCTED ON INDIVIDUALS WHO ARE THE CANDIDATES FOR POSITIONS IDENTIFIED AS CRITICAL-SENSITIVE BY THE REQUESTING AGENCIES. WE VIEW THIS AS AN EXTREMELY IMPORTANT FUNCTION WITHIN THE HIRING PROCESS.

ALTHOUGH THE WORKLOAD DROPPED SLIGHTLY IN FY 1982 TO THE 20,000 CASE LEVEL, WE EXPECT OVER 23,000 CASES THIS YEAR AND OVER 24,000 CASES TO BE PROCESSED IN FY 1984.

THE OTHER MAJOR FUNCTION CONDUCTED IN THIS FUND IS OUR GOVERNMENTWIDE EMPLOYEE TRAINING PROGRAM IN WHICH WE CONDUCT COURSES FOR OTHER AGENCIES IN THOSE AREAS WHERE IT IS MOST ECONOMICAL AND FEASIBLE TO DO SO.

LIMITATION ON TRANSFERS FROM TRUST FUNDS

THE OPM'S SALARIES AND EXPENSES APPROPRIATION ALSO INCLUDES A LIMITATION ON THE AMOUNT OF FUNDS THAT CAN BE TRANSFERED FROM THE FOUR TRUST FUNDS TO ADMINISTER THE RETIREMENT AND INSURANCE PROGRAMS. WE ARE REQUESTING AN INCREASE OF $2,267,000 RAISING THE ANNUAL LIMITATION TO $48,572,000. THE MAJOR COMPONENTS OF THIS REQUEST INCLUDE AN INCREASE OF $1,713,000 TO PAY FOR INCREASES IN SPACE COSTS, AN INCREASE OF $1,280,000 FOR HEALTH BENEFIT BROCHURES FOR THE NEXT OPEN SEASON, $450,000 FOR INCREASES IN BENEFIT PROGRAM AUTOMATION COSTS, AND A DECREASE OF $1,430,000 IN PROGRAMATIC COSTS ASSOCIATED WITH THE TAX EQUITY AND RECONCILIATION ACTS.

THE TOTAL AMOUNT REQUESTED WILL SUPPORT ACTIVITIES WHICH I VIEW AS AMONG THE MOST CRITICAL PERFORMED BY OPM. OF PARTICULAR PRIORITY TO ME ARE THOSE ACTIVITIES WHICH CAN BE CLASSIFIED UNDER THE HEADING OF IMPROVING THE INTEGRITY AND EFFICIENCY OF OUR RETIREMENT SYSTEM. THEY INCLUDE THE TIMELY PROCESSING OF CLAIMS SO THAT FEDERAL RETIREES WHO HAVE DEDICATED THEIR CAREERS TO GOVERNMENT SERVICE GET THEIR PENSION CHECKS ON TIME, IMPROVING OUR SERVICE ON DISABILITY RETIREMENTS, PROTECTING THE RETIREMENT FUNDS FROM WASTE, FRAUD, AND ABUSE, AND TIGHTENING UP REQUIREMENTS FOR OBTAINING EARLY RETIREMENT AUTHORIZATIONS. THESE EFFORTS HAVE BROUGHT POSITIVE RESULTS. AT ONE TIME WE HAD A BACKLOG OF CLAIMS THAT WAS ABOUT 100,000. SINCE THEN, WE HAVE BROUGHT THAT NUMBER DOWN WITH PROCESSING IMPROVEMENTS AND MANAGEMENT INITIATIVES TO ITS PRESENT LEVEL OF APPROXIMATELY 25,000 CASES IN PROCESS. IN TERMS OF SERVICE TO ANNUITANTS, RETIREMENT APPLICATIONS ARE BEING PROCESSED MORE QUICKLY. THE TIME NEEDED TO PROCESS A CLAIM HAS DROPPED 67% SINCE EARLY 1980. ANNUITANT SERVICE BACKLOGS HAVE BEEN REDUCED 66% SINCE OCTOBER

1981. THE DOLLAR LEVELS REQUESTED FOR FY 1984 WILL ALLOW US TO CONTINUE GIVING THIS AREA THE ATTENTION IT DESERVES.

WE HAVE ALSO REALIZED MAJOR ACHIEVEMENTS IN DISABILITY CLAIMS PROCESSING. STRICTER ADHERENCE TO REVISED STATUTORY REQUIREMENTS FOR ELIGIBILITY AND TIGHTER MANAGEMENT OF THE PROGRAM HAVE REDUCED THE NUMBER OF APPLICATIONS RECEIVED. THE QUALITY OF INFORMATION TO APPLICANTS, BOTH BEFORE SUBMISSION OF AN APPLICATION AND IN SUBSEQUESNT COMMUNICATIONS WHEN AN APPLICATION IS DENIED, HAS IMPROVED. DISABILITY RETIREMENTS HAVE DECLINED 54%, RESULTING IN SAVINGS IN FY 81 AND FY 82 OF $196 MILLION, AND PROJECTED SAVINGS FOR FY 83 TO FY 85 OF $1.1 BILLION. THE PROOF THAT PROGRESS WAS NOT ACHIEVED AT THE EXPENSE OF VALID CLAIMS IS SHOWN BY THE FACT THAT THE NUMBER OF REVERSALS BY MSPB HAS DECLINED BY OVER 20% IN THE PAST YEAR.

WE ARE ALSO DEVELOPING A NEW DISABILITY APPLICATION PACKAGE WHICH WILL EXPEDITE THE CLAIMS PROCESS. THIS WILL RESULT IN BETTER SERVICE TO ANNUITANTS AND REDUCED COST TO THE TAXPAYER BECAUSE OF IMPROVED TIMELINESS AND ACCURACY OF DISABILITY RETIREMENT DECISIONS.

OPM ALSO HAS TIGHTENED UP ON "EARLY OUT" RETIREMENTS, SO THEY WERE USED ONLY WHERE SEPARATIONS WERE ANTICIPATED. LESS THAN HALF OF THE REQUESTS BEFORE REFORM INVOLVED ACTUAL SEPARATION. THESE HAVE BEEN REDUCED BY 55%, RESULTING IN SAVINGS OF $44 MILLION IN FY 81 TO FY 82 AND PROJECTED SAVINGS FOR FY 83 TO FY 85 OF $88 MILLION.

PAYMENT TO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND

THE $15.9 BILLION REQUESTED FOR THE PAYMENT TO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND PROVIDES FOR THE CONTRIBUTION OF THE GOVERNMENT'S SHARE OF RETIREMENT COSTS AND REPRESENTS OVER 90% OF OUR REQUEST FOR FY 84 AND OVER 88% OF THE INCREASE OVER FY 1983. THIS PAYMENT IS IN ADDITION TO THE $3.3 BILLION TO BE PAID DIRECTLY FROM AGENCY BUDGETS IN FY 1984 FOR RETIREMENT COSTS AND CONSISTS OF TWO SEPARATE ITEMS.

THE FIRST IS THE RESULT OF THE CIVIL SERVICE RETIREMENT AMENDMENTS OF 1969 WHICH AUTHORIZED 30 ANNUAL APPROPRIATIONS TO FINANCE THE UNFUNDED LIABILITY

CREATED BY STATUTES WHICH RESULTED IN INCREASES IN PAY AND/OR CHANGES IN THE RETIREMENT SYSTEM. THE OPM IS REQUESTING $3,908,490,000 TO COVER THE FY 84 PAYMENT FOR THE UNFUNDED LIABILITY.

THE SECOND PART OF THE REQUEST IS FOR $11,977,017,000 TO BE PROVIDED UNDER PERMANENT INDEFINITE AUTHORITY. THIS REQUEST, AN INCREASE OF $373,283,000 OVER FY 1983, REPRESENTS A TRANSFER FROM THE TREASURY TO THE RETIREMENT FUND FOR INTEREST ON THE UNFUNDED LIABILITY AND CURRENT ANNUITY DISBURSEMENTS ATTRIBUTABLE TO CREDIT ALLOWED FOR MILTARY SERVICE.

THE OPM PROPOSING LEGISLATION TO REFORM THE CIVIL SERVICE RETIREMENT SYSTEM INCLUDING CHANGES IN BENEFITS AND INCREASES IN EMPLOYER AND EMPLOYEE CONTRIBUTIONS. THESE CHANGES WOULD REDUCE THE SUBSIDY FROM THE TREASURY AND MOVE THE FEDERAL CIVIL SERVICE RETIREMENT SYSTEM WHERE ITS COSTS ARE SHARED EQUALLY BETWEEN THE GOVERNMENT AND FEDERAL EMPLOYEES. THESE COMPREHENSIVE REFORMS WOULD REDUCE THE AMOUNT OF THE PAYMENT TO THE FUND BY $899,080,000 AND WOULD REDUCE OUTLAYS FROM THE RETIREMENT FUND ITSELF BY $357,000,000 IN FY 1984 AND OVER $8 BILLION BY THE END OF FY 1988.

GOVERNMENT PAYMENT FOR ANNUITANTS, EMPLOYEE HEALTH BENEFITS

THE OPM IS REQUESTING AN APPROPRIATION OF $1,506,339,000, A NET INCREASE OF $327,434,000 OVER FY 1983, TO FUND THE GOVERNMENT"S SHARE OF HEALTH BENEFIT COSTS FOR ANNUITANTS AND SURVIVORS WHO NO LONGER HAVE AN AGENCY TO CONTRIBUTE THE EMPLOYEES SHARE. THIS APPROPRIATION INCLUDES THE GOVERNMENT CONTRIBUTION FOR ENROLLEES IN THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM AND THE RETIRED EMPLOYEES HEALTH BENEFITS PROGRAM. THIS REQUEST IS MADE UP OF AN INCREASE OF $329,742,000 TO PROVIDE FOR THE GROWING NUMBER OF ENROLLEES AND THE ESTIMATED IMPACT OF PREMIUM INCREASES EFFECTIVE IN JANUARY 1984 FOR ANNUITANTS COVERED UNDER THE EMPLOYEES HEALTH BENEFITS PROGRAM. IT ALSO INCLUDES A DECREASE OF $2,308,000 IN CONTRIBUTIONS FOR ENROLLEES IN THE RETIRED EMPLOYEES HEALTH BENEFITS PROGRAM DUE TO THE IMPACT OF ENROLLEES TRANSFERING TO THE EMPLOYEES HEALTH BENEFITS PROGRAM OFFSET BY INCREASES IN CONTRIBUTIONS FOR THE REMAINING ENROLLEES.

THE OPM IS ALSO PROPOSING LEGISLATION IN THIS AREA TO MOVE TO A NEW SYSTEM FOR COVERED EMPLOYEES, ANNUITANTS AND SURVIVORS WHICH WILL ENHANCE COMPETITION IN THE PROGRAM AND RESULT IN LONG-TERM SAVINGS FOR BOTH THE GOVERNMENT AND PROGRAM ENROLLEES.

FY 83 SUPPLEMENTAL REQUESTS

IN ADDITION TO OUR FY 1984 BUDGET REQUESTS, WE ARE REQUESTING TWO FY 1983 SUPPLEMENTALS AT THIS TIME. THE FIRST IS $342,269,000 FOR THE PAYMENT TO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND. THIS REPRESENTS THE FIRST OF THIRTY ANNUAL PAYMENTS NECESSARY TO COVER THE UNFUNDED LIABILITY CREATED BY THE GENERAL SCHEDULE AND WAGE BOARD PAY INCREASES IN FY 1983. THE SECOND IS THE ADDITION OF APPROPRIATION LANGUAGE TO THE OPM'S REVOLVING FUND TO ALLOW THE OPM TO EXPEND UP TO $12,000 IN ENTERTAINMENT EXPENSES FOR THE PRESIDENT'S COMMISSION ON EXECUTIVE EXCHANGE AS PROVIDED FOR BY PL 97-3103. I UNDERSTAND THAT THE OPM'S SUPPLEMENTAL REQUEST TO COVER THE INCREASED COSTS OF CIVILIAN PAY WILL BE CONSIDERED IN A GOVERNMENT-WIDE REQUEST THAT WAS SUBMITTED WITH THE PRESIDENT'S BUDGET.

OFFICIAL RECEPTION AND REPRESENTATION

IN ADDITION, TO OUR PUBLISHED SUPPLEMENTAL REQUESTS, I AM ASKING FOR RESTORATION OF OPM'S OFFICIAL RECEPTION AND REPRESENTATION LIMITATION THAT WAS ALMOST ELIMINATED IN THE LANGUAGE OF THE FY 1983 CONTINUING RESOLUTION. WE HAD REQUESTED $2,500 WHICH HAS BEEN THE AGENCY'S LEVEL IN THE PAST. HOWEVER, THE REPORTED AMOUNT IN THE CONTINUING RESOLUTION WAS ONLY $500. THE $2,500 LIMITATION WILL ENABLE OPM TO CARRY OUT ITS INSTITUTIONAL ROLE FOR HOSTING SUCH ACTIVITIES AS: VETERANS WEEK OPEN HOUSE, THE HANDICAPPED AWARDS CEREMONY, A JOB OPPORTUNITIES EXCHANGE, AND LIKE EVENTS. THEREFORE, I RESPECTFULLY REQUEST THAT THIS SUB-COMMITTEE RESTORE OUR OFFICIAL RECEPTION AND REPRESENTATION LIMITATION FOR FY 1983 TO OUR ORIGINAL $2,500 REQUEST.

THAT CONCLUDES MY OPENING REMARKS AND I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE ON THESE OR RELATED MATTERS.

CIVIL SERVICE RETIREMENT FUND UNFUNDED LIABILITY

Senator ABDNOR. We've heard that the civil service retirement fund has an unfunded liability. How much is it, in round terms?

Mr. DEVINE. It's approximately $500 billion, or half a trillion dollars. It is an extremely large burden that this Government faces. To put it in perspective, if we took the whole national debt, that's slightly over $1 trillion, the unfunded liability of the civil service retirement system would add one-half again to the total national debt if we counted it as debt. It's an extremely high obligation that this Government faces, and is one of the major reasons why we will be submitting legislation to make major changes in the retirement system.

Senator ABDNOR. This is something we let get away from us? How in the world did we ever let it get up to $500 billion?

Mr. DEVINE. Yes, air, it's been a result of putting of cost of living adjustments into the system, and liberalization of benefits in the 1969 amendments to the law without increasing the employee or agency contribution to make up for the difference.

In 1969 we went to a system which allowed us to make direct transfers from the Treasury. That is basically how we keep the system sound today, by this Government-wide payment, which, as our request suggests, is around the $15 billion dollar level today.

Senator ABDNOR. Well, would you say that most of this $500 billion was incurred during the last 15 years?

Mr. DEVINE. Yes, sir. If we take, for example, the difference between the employee and the Government payment, the first 50 years of operation of this system, from 1920 to 1969, about $18 billion was put in the system by employees, and $16 billion by the Government. The Government put in about $2 billion less than the employees.

From 1969 to the present the employees put in about $33 billion; the Government put in a little more than $100 billion. So there's been a tremendous change since 1969 in the nature of this system. Not only has it grown tremendously in terms of the amount of money we spent, but the unfunded liability has grown dramatically as a result of benefit liberalization in the 1960's.

Senator ABDNOR. I may ask some additional questions in that area in writing.

Mr. DEVINE. I would be glad to respond to them.

CIVIL SERVICE RETIREMENT PROPOSALS

Senator ABDNOR. Would you explain your CSR's proposals that are contained in the President's 1984 budget?

Mr. DEVINE. Yes, sir. We would propose that the cost of living adjustment for retirees be frozen for fiscal year 1984 for all retirees. We would ask that the decision that was made last year to give one-half of COLA's below age 62, and the full COLA over age 62 be made permanent. Those are the main changes in the cost of living area.

For the benefits, we are requesting to set the normal retirement at age 65 as it is in virtually all private sector retirements. We would still allow employees to retire at age 55, but we would require that they meet the full cost of that early retirement to the trust fund by taking a true actuarial reduction of that payment, approximately 50 percent, or 5 percent per year for 10 years.

We would phase that in, however, over a 10-year period, so that it would only be a five-tenths of 1 percent reduction per year for a person aged 54. It would not apply to anyone over age 55 or over on date of enactment, and we would phase it in over a 10-year period so that the full 50 percent actuarial reduction would not affect anyone 46 years or over on the date of enactment.

We would next change the computation from the high 3 years of salary that we presently have to the high 5 years of salary which it was in 1969 before they were liberalized in the 1969 amendment.

Next, we would require that employees and Government contributions be increased to 9 percent of payroll from the present 7 percent of payroll in fiscal year 1984, and to 11 percent of payroll in fiscal year 1985. The goal is to have the new system fully supported by the 11-percent Government and 11 percent employee contribution, as was the goal when the major changes were made in the 1950's. This is consistent with the original idea of the program to have it equally supported by employee and employer.

It also asks that the Post Office and the District of Columbia Government bear their appropriate share of these changes.

As I mentioned earlier, the budget effect of these changes would be approximately $1.7 billion in 1984, $19.2 billion in the fiscal years 1984 to 1988, and about $100 billion over the 40-year period usually used to account obligations for trust funds, like our retirement system. Our proposals would by no means solve the full unfunded liability problem. It's too big for us to solve completely, but we would at least try to get under control $190 billion out of the $500 billion. We think this is a modest attempt to try to bring some of these costs under control over a 40-year period, and to get at least some degree of fiscal accountability in this system. And, then, hopefully, to begin the new system for new employees who will go under social security, to set the new civil service retirement system on a fully funded basis from day 1 for new employees, so that our grandchildren or great grandchildren can look to a fully funded retirement system.

RETIREMENT FUND FUTURE LIABILITY

Senator ABDNOR. In the event you are able to put into effect all of the proposals you give there, once you reach that 11-percent contribution, would that carry itself currently? Forgetting the $500 billion that's accrued here, would it at least stay current? Would it be an even situation?

Mr. DEVINE. It would, as I say, address about $100 billion out of the $500 billion problem. We are in no danger, unlike social security, of the system being underfunded. Because in the 1969 changes in the law, we were allowed, after coming to this committee, to ask for continuations of it, and the committee would certainly be taking a major step to deny them. They're almost automatic, because it is a permanent indefinite authorization for the base, although we come and ask for it each year.

Since it would be very unlikely for changes to be made that would be against the intent of the 1969 act, as long as these general transfers from the Treasury are allowed, there is no danger that the system will be underfunded.

We have a direct draw on the Treasury, unlike social security, which many people are very concerned about doing for social security. There is no ultimate problem with funding it. The problem is that it's just such a tremendous expenditure which makes this program, according to Congressional Quarterly's listing of entitlement programs, the fourth largest entitlement program in the whole Government. And in fact, it will become the third largest when unemployment goes down as we're predicting in fiscal year 1986. Through the budget requests, even if no changes are made, this will become the third largest entitlement program. It will be approximately 2½ times the size of the food stamp program. It will be more than the combined expenditures of housing assistance, aid to families with dependent children, and supplemental security income.

We're talking about a tremendously large program that gives benefits which are much out of proportion to benefits in the private sector.

SOCIAL SECURITY COMPARISON

Senator ABDNOR. What is the average annuity? And how does it compare to the average annuity in social security?

Mr. DEVINE. The average annuity, of course, would be much larger if we predicted future pension levels for present employees. But of those presently retired, the average pension is $12,480 a year, compared to $4,800 for social security, and $3,600 for a private pension plan.

About 60 percent of the private sector is covered only by social security or personal savings. Therefore, the proper comparison would be $12,480 a year to $4,800 per year.

About 40 percent of the private sector has both social security and a private pension plan. If we added the two together, that would be $8,400 for the private sector, for the 40-percent minority that has a pension, compared to $12,480 a year for Federal retirees.

In other words, the Federal employee would get 47 percent more, almost a 50-percent higher benefit than a person in the private sector.

However, about 80, somewhere between 75 and 80 percent of our employees will also collect under social security. If we take that into account, Federal employees retirement benefits will be about 76 percent higher than those in the private sector.

Anyway you make the comparison, for any relevant comparison in the private sector, we have extremely high benefits under this program.

Senator ABDNOR. It's been charged that the reason the unfunded liability is so large is because the Federal Government has not contributed its fair share through the years. Do you have any comment on that?

Mr. DEVINE. As I alluded to before, I think the simplest way to make that comparison is between 1920 and 1969, the first 50 years of this program, about $18 billion was contributed by employees, and $16 billion by the Government. That is, the Government, it is true, paid in $2 billion less over that period.

But if we move from 1969, when the benefits were liberalized, since that time, $33 billion has been contributed by employees, and more than $100 billion by the Government.

The $2 billion difference in the first 50 years is a very small proportion of the $66 billion more which the Government has paid since 1969. Overall, approximately $64 billion more has been paid by the Government than by employees.

I don't see any way that one could talk about the Government not paying its fair share.

Senator ABDNOR. Well, thank you for clearing that up.

Thank you, Mr. Devine, and associates. If we have other questions, we'll put them in writing. We do have a long agenda here, and we appreciate your being here today, and the testimony you've given.

Mr. DEVINE. Thank you very much, Senator Abdnor. I appreciate the opportunity.

U.S. MERIT SYSTEMS PROTECTION BOARD

STATEMENT OF HERBERT E. ELLINGWOOD, CHAIRMAN

ACCOMPANIED BY:
ERSA POSTON, VICE CHAIRMAN
DENNIS DEVANEY, MEMBER

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. Our next witness will be Herbert E. Ellingwood, who is Chairman of the U.S. Merit Systems Protection Board.

We appreciate your being here today and your associates, Mr. Ellingwood. You go right ahead and introduce your people to us, or however you care to proceed.

You can summarize your statement. As I told Mr. Devine, I assure you, your entire statement will be made a part of the record.

Mr. ELLINGWOOD. Thank you, Mr. Chairman.

On my left is Ersa Poston, the Vice Chairman, who has been before you many times, and on my right, a new member, Dennis Devaney.

So we're glad to be here today.

AIR TRAFFIC CONTROLLER APPEALS

As you recall, the last time we were here before the subcommittee, we requested some assistance to help with the air traffic controller cases and you responded to that.

I am happy to report today that all 11,125 air traffic controller cases have been completed at the regional level, as of February 1, of this year.

Now the majority of those petitions for review are currently in our headquarters, and in the process of being adjudicated there. Despite that success, because of other circumstances, the new case receipts are up. There's been a ripple effect upon the whole system, and so our workload is still increasing.

Even while handling the air traffic controller cases, though, we have produced virtually the same number of nonair traffic controller cases as in the past. So this is a source of some satisfaction to us.

About one-half of the backlog of some 5,400-plus cases are over 120 days old. So we have a plan by which we intend to solve that.

NEED FOR SUPPLEMENTAL

In the fiscal year 1983 request, in anticipating this particular workload, we sought a funding level of $19.76 million. The problem, though, was that the continuing resolution funds us at a level $1 million less than that.

Therefore, our only hope to reduce the case backlog and return to our former practice of issuing timely decisions is to maintain our current personnel levels and proceed on the basis that you will provide the million dollar supplemental to the Board.

The President has recognized the validity of our request, as has every Congressman and Senator that we've talked to, and so we are proceeding on the basis of the fact that we are going to get that extra million dollars for this year.

Senator ABDNOR. We only have to convince OMB?

Mr. ELLINGWOOD. Well, OMB has been convinced.

Senator ABDNOR. Have they? All right.

Mr. ELLINGWOOD. Yes; as far as what would happen to us if the supplemental were not requested, I would like to address that perhaps a little more specifically later.

But if we don't receive the supplemental we are really in trouble, because we are proceeding on the basis of an understanding that everybody agrees that we ought to have the extra million dollars.

As far as 1984 fiscal year is concerned, though, we are coming in with a budget less than 1983. We have also gone through cost cutting exercises. We've initiated a lot of new programs which will save over $800,000.

In addition, we are looking at ways to expedite the process, to make it more efficient, and we have all kinds of programs now that are underway to do that.

PREPARED STATEMENT

So, I think with the written statement being in the record, I would like to close there and respond to your questions.

[The statement follows:]

STATEMENT OF HERBERT E. ELLINGWOOD

I welcome the opportunity to meet with the Subcommittee to discuss the Merit Systems Protection Board's request for supplemental funding for Fiscal Year 1983 and our needs for Fiscal Year 1984.

As you will recall, the last time we appeared before this Subcommittee we requested financial help to deal with the crushing caseload generated by air traffic controller (ATC) appeals--and you responded to those needs. I am happy to report that our Regional Offices completed action on all 11,125 ATC cases February 1, 1983. The ATC focus has now shifted to Board headquarters, as petitions for review by the Board itself have been filed by the controllers who lost their appeals in the regions. Despite our success in completing the initial decisions in the ATC cases, however, the all-out effort in the regions to complete them has overshadowed the dramatic and sustained increases in new case receipts in all other areas, many of which are related to budget cutbacks in some agencies. This ultimately caused a "ripple effect" on other agencies, particularly the Merit Systems Protection Board. The attached chart (Number 1) illustrates the sharp increase in our regular caseload.

Even while handling the air traffic controller cases, we produced virtually the same number of non-ATC cases last year as in the past. This, too, is a source of great satisfaction for us. However, because of an increase in RIF appeals and the resource demands of the ATC cases, more than half of the remaining cases are now more than 120 days old, and the number is growing steadily.

Need for Supplemental

In our Fiscal Year 1983 request, we anticipated this occurrence and sought a funding level of $19.760 million to support our continued effort to eliminate non-ATC backlogs quickly, before they reached the debilitating levels we faced four years ago. Our planning centered around maintaining the levels of staffing--both permanent and temporary--that we put in place in the regions to handle air traffic controller cases, and are now needed to handle the new backlogs, while simultaneously building up headquarters staff to complete the processing of the air traffic controller petitions. I have attached a second chart which illustrates the impact of these personnel resources on our case production. This shows the direct correlation between resource availability and the buildup of the backlog which we try so desperately to avoid.

Unfortunately, Mr. Chairman, the current continuing resolution funds us at a level one million dollars below our request. That $1 million represents the resources necessary to continue the experienced staffing now in place in our regional offices to tackle the backlog there. At $18,760 million, we cannot hold the regions constant and staff the headquarters as needed. Without early approval of the supplemental funding, we will have to begin to pare down in the regions by shifting their personnel resources to the headquarters. What impact will this have on the regions? Thousands of appellants whose appeals were received after the ATC cases will encounter further delays since there simply will not be sufficient personnel to do the job on a timely basis, as required by law.

Therefore, Mr. Chairman, the only hope that we have to reduce our case backlog and return to our former practice of issuing timely decisions is to maintain our current personnel resources in the regional offices for the remainder of Fiscal Year 1983. There is no way we can do that without the approval of this supplemental request.

I am pleased to say that the President has recognized the validity of our request. He has accordingly included in his budget support for our request for supplemental funding.

Cost-Saving Innovations

Mr. Chairman, before addressing the Board's needs for Fiscal Year 1984, I would like to bring to your attention some of the strides that we have made in our efforts to become more cost-effective.

Shortly after my arrival at the Board, it became clear that if the Board expected to significantly increase the efficiency of its operations, it would be necessary to create one unit within the Board whose primary task was to identify, develop and coordinate measures which would ensure such efficiency, while at the same time maintaining the high level of service to which constituents are entitled. The result was the establishment of the Office of the Assistant Managing Director for Management which merged certain members of the staff who, compositely, had a strong working knowledge of each of the Board's operations. Quickly this office began to produce the desired results as it recommended a variety of innovations and simplifications.

One initiative was the establishment of fixed neutral hearing sites. These neutral sites were designed to strike a balance between the competing interests of agencies, appellants, and the Board's limited resources. In all, 92 sites were approved. By holding hearings only in these 92 locations, we are now able to reduce our travel costs, with no appreciable detriment to either appellants or agencies.

In addition, some of the simplifications which were adopted began to yield savings immediately and are worth enumerating:

a. Service of Documents - to promote the efficiency of appeals process in terms of related MSPB professional and clerical time saved, the Board amended MSPB regulations to require parties to serve each other.

b. Elimination of Certified Mail - to reduce cost, the Board eliminated some extraneous requirements for certified mail.

c. Hearing Transcripts Policy - the Board drastically reduced its transcription costs by changing its former practice of providing free transcripts to parties.

d. Elimination of Dual Files - to improve efficiency in terms of employee time, storage and costs of supplies, we established procedures and controls for single file appeals procedure.

e. Case Tracking - to gain greater control and operating efficiency, the Board converted its case tracking data base from the Department of Interior to the Office of Special Counsel computer.

Mr. Chairman, these five changes alone are expected to save the Board a minimum of $817,000, thus contributing to the overall objective of accomplishing more with less. Nevertheless, we are continuing our search for additional methods of increasing our efficiency. This search, together with the Board's statutory responsiblity of providing a system of adjudicating appeals in an expeditious manner, has led to the development of a pilot program of appeals arbitration. The Board has determined that routine, non-precedential cases can be processed under innovative and efficient techniques which will not compromise the rights of the parties involved. Accordingly, we have developed a pilot program entitled " appeals arbitration" which was implemented on March 15 in four of the Board's regional offices--Chicago, Denver, Seattle, and San Francisco--for a test period of not less than one year.

All of these changes have made it possible for us to submit a request for FY'84 appropriations which is below FY'83. I would now like to describe to you our needs for FY'84.

Fiscal Year 1984 Request

The Board is requesting for FY'84, 392 workyears and $19.6 million in budget authority. These amounts represent a net decrease of $138,000 in budget authority below our hoped for total of $19.76 (including supplemental) for FY'83. Furthermore, we are requesting no increase to the FY'83 approved staffing levels. We believe that even with this decrease in funding, we can continue to operate at 1983 levels.

It may be helpful to the Committee if I were to describe briefly how we expect the budget to be divided among the Board's various functions during FY'84.

As you know, the initial step in the appeal adjudication process is the filing of an appeal at the Regional Operations level. It is here that the great majority of our cases are decided. We are requesting $7.795 million and 163 workyears for this major program area. This request represents a decrease of $295,000 from FY'83 levels. The $295,000 decrease is the result of savings accruing from improvements in the process by which the Board handles the recording and transcribing of hearings.

The next stage of the adjudication process takes place in our Office of Appeals Counsel. This office is responsible for reviewing and analyzing appeals from regional office decisions, drafting the necessary memoranda or opinions, and recommending decisions on those appeals to the Board. The $488,000 increase requested for this program will be used to maintain the FY'83 level of operations for FY'84. The bulk of the increase represents the full year costs of FY'83 staffing actions taken to meet the demands of processing air traffic controller petitions for review.

A slight increase is being requested for the Office of Merit Systems Review and Studies. The primary functions of this office are to conduct special studies of personnel abuses and to review regulations as proposed by the Office of Personnel Management.

We are requesting an increase of $29,000 and no workyears over FY'83 levels. This small increase represents the amount of funding required to maintain FY'83 levels of operation in FY'84.

Another small increase over FY'83 levels is necessary for the Board's Office of General Counsel. This office provides the legal advice to all Board offices, as well as supervising all Board litigation. We are requesting $1.192 million and 35 workyears. The $87,000 increase allows this office to fund activities at the 1983 levels as well as respond to increased litigation brought by former air traffic controllers.

The final program seeking a moderate increase is our Case Decisions Program Review. A $553,000 increase is being requested in order to continue providing effective managerial, administrative, and appeal-related research activities. This growth in resources is comprised of $667,000 in mandatory increases such as pay raises, and GSA, GPO and Postal Service charges. However, program growth in this area is expected to be offset by an estimated $124,000 in savings in the areas of travel and hearing transcription costs which were described to the Subcommittee earlier.

In summary, Mr. Chairman, our two-pronged request today will enable the Board to meet many of the challenges confronting us for the remainder of FY'83 and through FY'84. First, if our $1 million supplemental request is approved, it will allow us to dramatically reduce our current backlog of cases in the Regional Offices to a manageable level of 600 cases. In addition, it would make it possible for our Office of Appeals Counsel to efficiently handle its own inflated caseload of over 5,000 appellants involved in the 1,189 petitions for review (PFR's) of the air traffic controller decisions which have been filed thus far with the Board. Second, our 1984 request will make it possible to wipe out completely any backlog in our regional offices and return to normal in the Office of Appeals

Counsel. Likewise, our Office of General Counsel, which anticipates at least a five-fold increase in challenges to Board final decisions, will be able to continue its impressive record of successful litigation in this area.

Finally, Mr. Chairman, receipt of our 1984 request will permit the Board to renew its full commitment to the Board's Office of Merit Systems Review and Studies which was the focus of so much support in the Senate during the development of the Civil Service Reform Act.

During the course development of the next year, this office will be conducting studies on a number of subjects approved by the Board, including:

1. Government-wide Study on the Implementation of Reductions-in-Force in 1981.

2. Study of MSPB Appeals Decisions for 1982.

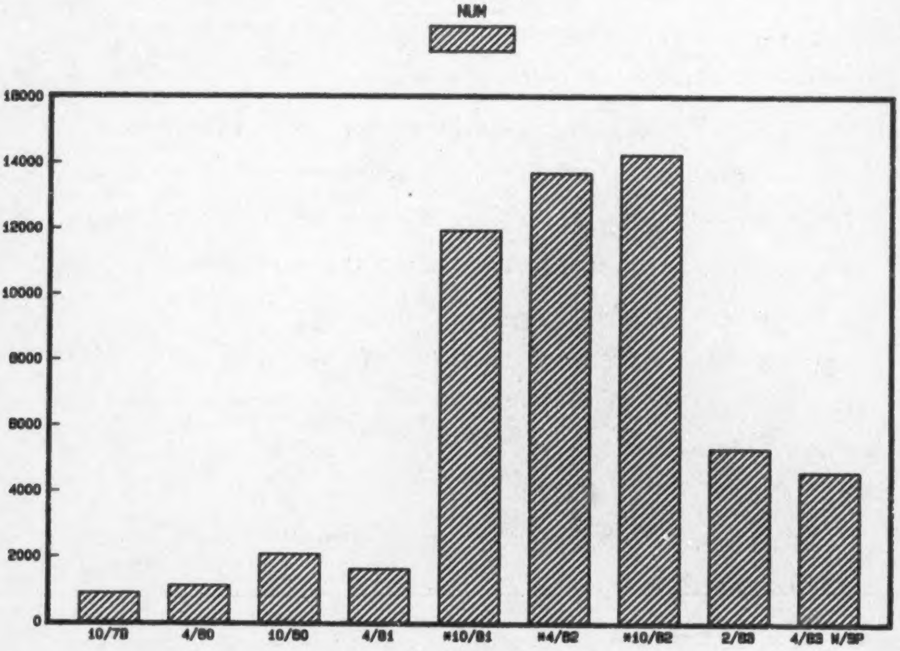
3. Study of OPM's Significant Actions during 1982

4. The Omnibus Survey 1983.

I would like to thank you, once again, for your time, interest, and support in making the Merit Systems Protection Board the strong, independent entity needed to implement the mandates of the Reform Act.

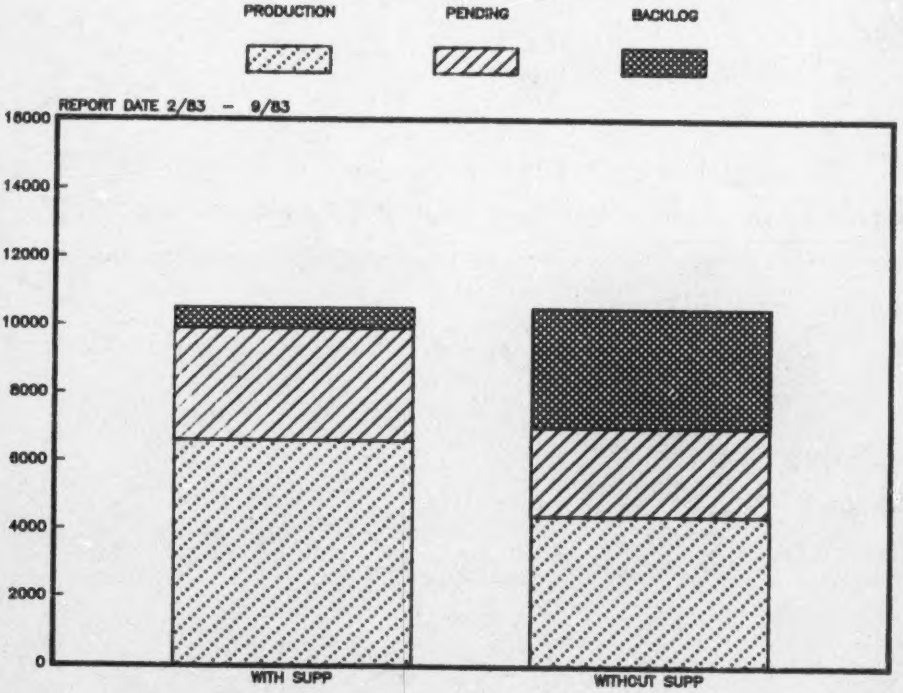
I will, at this point, be happy to answer any questions the Subcommittee may have.

REFORM ACT PENDING CASELOAD SUMMARY (CHART 1)



* ATC AND REGULAR CASES

PROJECTED WORKLOAD AND BACKLOG FY 83



CURRENT CASELOAD

Senator ABDNOR. Thank you. Let's see, you had 11,000. How many are you reviewing out of the 11,000?

Mr. ELLINGWOOD. Well, out of the 11,125 air traffic cases, we have currently in the headquarters region on appeal over 5,000 cases.

Senator ABDNOR. Does that take the same kind of effort, the same kind of work?

Mr. ELLINGWOOD. Yes, sir. The same kind of work has to go on in all those cases.

Senator ABDNOR. So that's what you are basing your budget on, that $1 million. If you are short that, you are short manpower, is that it?

Mr. ELLINGWOOD. We're short manpower not only in those cases, but on the entire backlog.

We currently have a chart that's before you in the testimony which would show that without a supplemental we will end up with a backlog of over 3,500 cases, and we are trying to get that down to 600 cases with the additional funding.

Senator ABDNOR. Well, what was it before the air traffic strike? How big a caseload? Do you hope to get it back to that level some time, or have we generated enough interest in this sort of thing that the review is going to go on and on and on from now on?

Mr. ELLINGWOOD. The current statistics show that we have an increasing workload of 30 percent. So that if we take the last 6 months, we've experienced, just in the last 6 months, increased filings of 30 percent.

So as the employees are becoming more concerned about their position in the Government, as the Government is looking at reductions in force, reductions in programs, they are more concerned about their jobs. So they are more likely to fight any kind of grievance.

So the increases are there as far as the hearings are concerned, and they are also there as far as the appeals are concerned.

Senator ABDNOR. You already said that you're taking steps proposed by the President for reductions in the various areas, wherever you can.

Your budget is not really that much higher.

Mr. ELLINGWOOD. The 1984 budget is less than the 1983 budget, assuming we get our million dollar supplemental.

Senator ABDNOR. It will still be less.

Do you have a pilot program on this appeals arbitration area?

APPEALS ARBITRATION

Mr. ELLINGWOOD. One of our most exciting programs is the one that we call our appeals arbitration. As you know, the Congress gave us the authorization to take a look at new kinds of processings of cases other than just strictly judicial adjudication. The program of arbitration went into effect on March 18 in four jurisdictions across the United States: Chicago, Denver, San Francisco, and Seattle, and it will be in operation for a 1-year trial period.

In fact, we have people here today from another agency who are helping us to put this plan into effect, and we hope every Congressman in every one of those jurisdictions will have their staff very carefully watch this program.

We believe that it will greatly reduce the number of cases that have to go all the way through an adjudication process. It will shorten the timeframe in half, at the hearing level; from a 120-day limit, it will reduce it to a 60-day limit.

And on the appeal level even more time will be saved. It will shorten it from the average now of 7 months to just 45 days.

Senator ABDNOR. That sounds excellent. I hope it works out.

Mr. ELLINGWOOD. It should be a very good program.

Senator ABDNOR. Well, I tell you. I think that's all we'll ask, Mr. Ellingwood. We may have other questions from the rest of the committee and from myself here, and if we do, we'll just submit them to you in writing.

Mr. ELLINGWOOD. Thank you very much.

Senator ABDNOR. Thank you all for being here.

OFFICE OF THE SPECIAL COUNSEL

STATEMENT OF K. WILLIAM O'CONNOR, SPECIAL COUNSEL

PREPARED STATEMENT

Senator ABDNOR. Our next witness will be Mr. William O'Connor, Special Counsel, U.S. Merit Systems Protection Board.

Mr. O'CONNOR. Good afternoon, Senator.

Senator ABDNOR. Good to have you back.

Mr. O'CONNOR. Thank you, sir.

Senator ABDNOR. We'll just let you proceed at will here.

Mr. O'CONNOR. All right, sir. I know the pressure the committee is under this afternoon, and we have submitted a statement in writing, which I know you have had the opportunity to discuss and consider and include in the record, and on the basis of your original comment that you are going to include it in the record, I would rather just move to the questions so that the Senator can move ahead with the hearings. I know you have a lot of things to do today.

Senator ABDNOR. Well, thank you, Mr. O'Connor. We appreciate that. I assure you that every word of your written statement has been looked at and will be reviewed by the members and the staff.

Mr. O'CONNOR. Thank you, sir.

[The statement follows:]

STATEMENT OF K. WILLIAM O'CONNOR

Thank you for inviting me here today to discuss our funding request for Fiscal Year 1984.

The Office of Special Counsel (OSC) receives and investigates allegations of activities prohibited by civil service law, rule or regulation and when warranted, initiates appropriate corrective and disciplinary actions before the Merit Systems Protection Board. Investigating allegations of prohibited personnel practices in this area constitutes the bulk of our work. Sole authority to prosecute violations of the Hatch Act was also vested in the office by Congress. The OSC is also obligated by statute to provide a safe channel through which federal employees may disclose allegations of government fraud, waste and mismanagement without fear of retaliation or disclosure of identity except with the employee's consent. The OSC is not authorized to investigate these types of allegations. However, we may require an agency head to investigate and report formally to the Congress and the President if we determine there is a substantial likelihood the information received does evidence a violation of law, mismanagement, a gross waste of funds, abuse of authority or danger to the public. When a formal report is not specifically requested, the agency head is required to report the action taken on the referral by letter to the OSC.

I am here today to discuss the funding required for the Office of Special Counsel so as to achieve the statutory requirements I have just summarized.

As of March 28, the pending workload was 1,383 matters. A breakdown of that number reveals that 866 allege prohibited personnel practices or other prohibited activity, 60 constitute whistleblower allegations, 106 relate to Hatch Act violations and 351 matters are pending evaluation.

The cost to operate this office is approximately $16,000 per day. According to a staff analysis conducted last month, the average cost of a thorough investigation of a prohibited personnel practice complaint ranges from $20,000 - $30,000. That estimate relates only to staff time and does not include overhead and travel expenditures. Costs increase substantially for cases requiring litigation before the MSPB.

Consistent with the Administration's budget, the requested budget authority for FY 1984 is $4,419,000 with 86 FTE. This represents an increase of $419,000 (11 percent) over the FY 1983 continuing resolution of $4,000,000 with no increase in FTE.

The increase in funds for 1984 is the result of uncontrollable increases in fixed costs for office space and personnel compensation and higher travel costs and expenses for investigations and witnesses.

Last year Congress approved an estimate of 113 FTE for FY 1983; when I came on board on October 6, there were 76 personnel on board. The 1984 budget allocation for FTE for FY 1983 has been reduced to 86, consistent with the Administration's overall promised reduction in government expenditures. I expect that staffing levels formulated by OMB will be met through the usual attrition which occurs in every agency. I do not plan to RIF employees to meet this FTE limitation. Our operations may require exceeding the 86 FTE level to carry out new initiatives before estimated lapses begin to occur; I have been in contact with OMB concerning this situation and have obtained informal agreement for a limited deviation for FY 1983. The major objectives of the OSC can be met with this staffing level through selective application of resources. This means that we will not do everything at a speed which suits all complainants, but that is the general condition of law enforcement agencies. With experience, we will be more selective in resource application.

The office has, as yet, limited experience with major litigation. I know how resource consumptive that process can be; but, cases which are meritorious must be litigated, and, under the statute establishing this office, all allegations received are required to be investigated by this office.

Any reduction by Congress in the Administration's plan would place a severe strain upon our ability to function in accord with present plans and would require imposition of major limitations on litigation. Without the requested level of funding, OSC will not be able to carry out the statutory scheme designed by Congress for protection of the merit systems.

Since my confirmation as Special Counsel in October, 1982, I have instituted changes in virtually every function of the office. Those changes were designed to help ensure that the responsibilities of this office are met in a timely and professional manner.

Let me call your attention to some of the more notable changes.

The staffing level of the office has increased from 76 employees on board, as of October, 1982, to 103 as of today. Understaffing during FY 1982 was caused in part by budgetary problems and resulted in an inability to vigorously pursue all our statutory responsibilities at the same time. This was the result of budget related attrition and program contraction partially incurred by operating initially at a 16 percent reduced level of funding during 1982.

When I arrived in October, I found the OSC investigative staff to be inexperienced in conducting investigations with prosecutive ends clearly in mind. Vigorous recruitment of investigators experienced in criminal investigations and of attorneys with litigation experience has been a priority. This infusion of experienced staff members will make the system work. The staff of the Associate Special Counsel for Investigations now has over 100 years of combined investigative experience compared to 20 years in October.

A new structure for processing matters and developing cases for prosecution has been established.

Our field offices are required to report all new matters received to the Associate Special Counsel for Prosecution within five work days of receipt, for assignment to an attorney. That attorney, in turn, is personally responsible for all action taken on the matter. The attorney is responsible for determining, in consultation with an investigator, the factual and legal issues to be resolved and for guiding any inquiry conducted. Additionally, personal contact must be made with all complainants who can be reached before any final determination is made.

In the past, some employee complaints were resolved summarily without contacting the complainant, a problem attributed to inadequate staffing and funding. I have directed our investigative staff to investigate every complaint received, at least to the extent of interview. At a minimum, every complainant will be personally contacted by an investigator or an attorney. Personal contact by the staff will reduce the chances of a valid complaint being overlooked because of the employee's inability to clearly and sufficiently articulate the charges in writing. The final decision to close a matter is made by the Associate Special Counsel for Prosecution, an experienced career executive, rather than by the field office staff.

This approach is intended to focus our investigative efforts with the prosecutive ends more clearly in mind from the outset of any investigation.

The Washington Field Office was opened in October to better serve the large number of federal employees in this area. Most investigative matters, previously assigned to our Central Office were transferred there.

To improve coverage of existing case work, shorten response time and reduce travel costs, a field office was opened in Chicago in February. That office will be completely staffed by the end of this month.

An Inspector General function within the office has been established and the Associate Special Counsel for Investigation has been assigned that responsibility. He, in addition to being responsible for giving technical direction to our investigative program and procedures, is responsible for developing and implementing our internal control systems and, as our systems and guidelines are more firmly in place, conducting inspections and audits of all administrative and program operations. The initial thrust of his efforts has been in developing procedural instructions and work standards which will serve as a basis for measuring and evaluating productivity and the quality of the work performed by the office. He is also responsible for reviewing and inquiring into any complaints against individual staff members or actions by the office (other than those relating to legal and prosecutive determinations.) It is my intent that the Inspector General will assist me to assure that the work performance of the staff and all organizational units measures up to the highest professional standards.

I continue to participate in the functions of the President's Council on Integrity and Efficiency as an ex officio member. In his role as Inspector General I have asked the Associate Special Counsel for Investigation to maintain a liason with the Inspector General community. I believe that this cooperation is of utmost importance in fulfilling our statutory responsibilities.

And finally, an office has been established to deal soley with Congressional and Public Relations. The Director of that office is charged with keeping the lines of communications open to the Congress, the press and the public.

A concerted effort to conserve our budgetary resources is ongoing. During 1982 the Los Angeles Branch Office was consolidated with the San Francisco Field Office. The investigator assigned to the L.A. Branch office was reassigned to San Francisco, which also happened to be his home.

I have chosen to postpone filling the position of Deputy Special Counsel. When the Deputy Special Counsel was appointed as Judge of the United States Claims Court, I divided the responsibilities of that office between my Associate Special Counsels for Prosecution and Investigation. This results in an annual savings of over $60,000.

A new method of processing payroll and a new accounting system were adopted during 1983. Previously, payroll was processed through the Office of Personnel Management. The new arrangement contracted through the Department of the Interior wiill result in some monetary savings and increased processing efficiency.

A major structural change has been made in the field office system during the last six months. Previously all field office chiefs were GS-15's. Responsibilities of field office chiefs have been reduced in an effort to centralize authority. Accordingly, all field office chiefs, except those in San Francisco and Washington D.C. hold GS-14 level positions.

The bulk of the complaints received by the OSC concern prohibited personnel practices. During FY 1982, investigative action was completed on 2,498 matters out of a total of over 3,300 matters pending during the year. In FY 1983, action is expected to be completed on 2,261 out of a total 3,000 matters (including the 850 matters carried over from FY 1982).

During FY 1982, 47 referrals of information evidencing fraud, waste or mismanagement of government funds were made to the appropriate agency heads. Based on current workload, we project that 102 referrals of 150 possible whistleblower allegations received will be made in FY 1983, and 136 of 200 received in FY 1984.

This concludes my formal statement which, along with our budget justification, summarizes our budget request for the FY 1984 appropriation of $4,419,000 as submitted by the President.

I would be pleased to answer any questions that you or other members of the subcommittee may have at this time.

BACKLOG SITUATION

Senator ABDNOR. What's the backlog situation with you people? Let's start with that.

Mr. O'CONNOR. The backlog situation with us is we have on hand about 1,350 matters. The 1,350 include 850 which we have received since I came on board in October 1982, and the balance are older than that. But we are gnawing away at the ones that are older.

My guess is that the backlog erosion process will accelerate because of management initiatives which we put into place in November 1982, and we are finding that things are beginning to move faster.

We have also been required to increase staff significantly because of the situation which prevailed during fiscal year 1982, which required staff compression because of uncertainties about finances for the office.

We have gone from a 76 on board strength when I came in to the Office of Special Counsel in October to 103 on board now, and we'll be running right around that number through the balance of this fiscal year.

We'll be lower than that next fiscal year, but we will be a little bit in excess during fiscal year 1983 of the 86 FTE authorized by OMB.

However, the budgetary position, dollars wise, will not be exceeded. We will stay with the budget dollars that have been provided in the present submission, and we support that position dollars wise, and with the adjustment that OMB has agreed to for fiscal year 1983, we'll be fine.

Senator ABDNOR. Good.

Mr. O'CONNOR. Fiscal year 1984, we'll have to, of course, taper a little bit. But that will take care of itself through normal attrition.

Senator ABDNOR. We certainly commend you for that.

Then your budget will allow you to catch up a little on your backlog, to what degree? I think you said it a minute ago.

Mr. O'CONNOR. We will dispose of the backlog as quickly as we can, and we are looking toward better systems of analysis as a mode for doing that, Senator Abdnor.

The thing that we have seen is that many of the matters that come in really do not require a significant amount of attention, but some do. And the ones that do, cost a great deal of time and resources to investigate.

I think we've got a staff analysis now that shows that a significant investigation may cost as much as $30,000 or $40,000, and so we can't do very many of those.

So prosecutorial discretion requires that we identify early on in the investigative stage those matters which require serious in depth investigation and get to those, and that we put aside those that are less signicant, or which do not constitute the appropriate application of limited resources which the office will have.

Senator ABDNOR. Could you do a more thorough job if you had the manpower and the dollars?

Mr. O'CONNOR. Well, I think we have enough dollars to do the job that we've been asked to do, Senator Abdnor, and I think that the best thing for this office is to run a period of consolidation for a couple of years, and see exactly how the job defines itself.

We do need, of course, the supplemental that's been mentioned in our budgetary submissions. It's not large, and we do think that that will help accelerate the handling of matters and cases because we'll have more travel, more of the investigators on the road more of the time, and more of the lawyers on the road more of the time so that the disposition of matters will be accomplished in a more expeditious fashion.

Senator ABDNOR. Fine. Well, far be it from me to try and put money in the budget.

I hate this word, but for a better one I'm going to use it. Do you think that the whistleblower program is effective? There's got to be a better way to describe that individual.

Mr. O'CONNOR. I think that I bring to that question more than one perspective, sir. I've been a prosecutor in the Justice Department. I've been an Inspector General in the Reagan administration. Now I'm in the position of Special Counsel.

I think that the whistleblower program in the Reagan administration works very well. I think it's also true, though, that it works best in the Inspector General area, rather than in any other area.

Of course, the Inspector General of the particular agency has the immediate resources and authority to conduct investigation and to get directly to the heart of the matter with promptness.

I think that the whistleblower provisions of the Special Counsel's office, however, provide an excellent access for those who wish to come in with information which they feel would be a serious matter for them if their names were disclosed. And so it works, and I think that we get some substantial information this way.

I think that the agencies have uniformly responded effectively to the matters when we brought them to the attention of the agency under B(3) or B(7).

Senator ABDNOR. Good. I'm glad to hear that.

You were talking a moment ago that you do considerable traveling, in your area of Special Counsel. Is that where a large part of your budget has to go?

Mr. O'CONNOR. Well, there will be, I think, in fiscal year 1984, we're planning about $330,000 in the travel as compared with about $200,000 this year.

We have 24 attorneys and about 26 investigators, and that number may change a little bit. But it's going to be around 50 people, investigator or attorney type.

Those people who are in the operational levels ought to be on the road a considerable amount of the time because they can't do the job of the office by sitting in the office watching the leaves turn colors.

The way to get out there and do it is to get on the street, talk to the people, if it's a case, get it together, write the report, and bring it to prosecution. If it's not, to closd it out.

That can't be done by sitting in the office. So, yes, the travel budget will be, I'd say, about $335,000 in fiscal year 1984. But that's not the largest part of the budget. Most of the budget goes into salaries for the people who are in the Office of Special Counsel, and there are, as I said, 86 FTE for that year.

And, of course, the SLUC.

Senator ABDNOR. Go ahead. That's been on everybody's mind these days. How is it going to affect the Office of Special Counsel?

Mr. O'CONNOR. Well, Senator Abdnor, I have an abiding antipathy for SLUC. I think that if the SLUC rate were raised, it would simply mean that we would do less. We would have the same offices, but either we wouldn't send the people out on the road to do the job they have to do, or we wouldn't be able to bring matters to prosecution that need to be brought to prosecution.

The SLUC rate as it is, is I think, tolerable. But if it were expanded at all, it would be significantly costly, and would mitigate against the execution of the function of the Office of Special Counsel.

Senator ABDNOR. It's good that we have that information.

One last thing, in regard to your relationship with the Board, are things going quite well now?

Mr. O'CONNOR. They are, indeed, sir. Chairman Ellingwood and I are, I think, able to discuss and resolve any administrative problems that might arise with no difficulty whatsoever. He has been extremely supportive in every area appropriate to my office, and yet we maintain the professional relationship of prosecutor, in my case, against judge, in his case, and of course we aren't supposed to agree and we don't agree all the time. But that's how it always is when you practice law, as you know. And it doesn't matter which side of it you find yourself on. Judge and the prosecutor have different functions, and I think that he and I respect and execute our functions in a manner that's mutually satisfactory.

Senator ABDNOR. Well, that's good to hear, and it's a good note on which to conclude the hearing. We thank you for coming. I'm sure there may be some additional questions that come up from some of the members of the committee, and if they do, we will submit them in writing.

And we thank you all for coming.

Mr. O'CONNOR. Thank you, Senator Abdnor, and we appreciate the opportunity to appear.

FEDERAL LABOR RELATIONS AUTHORITY

STATEMENT OF BARBARA J. MAHONE, CHAIRMAN

ACCOMPANIED BY:
RONALD W. HAUGHTON, MEMBER
HENRY B. FRAZIER III, MEMBER
JOHN C. MILLER, GENERAL COUNSEL
ROBERT G. HOWLETT, CHAIRMAN, FEDERAL SERVICE IMPASSES PANEL

BUDGET REQUEST

Senator **ABDNOR**. Our next witness will be Chairman Barbara J. Mahone of the Federal Labor Relations Authority. Chairman Mahone is making her first appearance before this committee and we certainly welcome you.

We'll try not to be too hard on your initial appearance here. And I note that we do have the former Chairman, Mr. Haughton, with us. It's good to have you back.

Mr. **HAUGHTON**. It's good to be here.

Senator **ABDNOR**. Ms. Mahone, I guess you've been listening to us. We would just ask you for your statement, if you care to make it, and we will have a few questions.

INTRODUCTIONS

Ms. **MAHONE**. Thank you, Mr. Chairman.

As the new Chairman of the Federal Labor Relations Authority I first would like to indicate that I appreciate the opportunity to present the budget for the Federal Labor Relations Authority to this committee today. Before I make a few summary comments, I would like to introduce my colleagues who are with me today.

Senator **ABDNOR**. Fine.

Ms. **MAHONE**. First, to my immediate left, your right, is Ronald Haughton, my predecessor, who, as you are well aware, was the former Chairman of the Federal Labor Relations Authority.

Senator **ABDNOR**. We're happy to have him back.

Ms. **MAHONE**. And the other member, Hank Frazier.

To my right and your left is the newly appointed General Counsel, John Miller, and to his right is Bob Howlett, Chairman of the Federal Service Impasses Panel.

To my immediate right is George Baily, our Acting Deputy Director for Administration in charge of financial services.

Senator **ABDNOR**. Gentlemen, we welcome you all to the hearing.

Ms. **MAHONE**. Thank you.

BUDGET SUMMARY

Just a few summary remarks, and I will be brief in the interests of time. As you are aware, the budget request for the Federal Labor Relations Authority for fiscal year 1984 totals $16,695,000, which includes provision for 302 full-time permanent positions.

The total of $16,695,000 is an increase of $881,000 from the level of the continuing resolution approved for the Authority in fiscal year 1983, which was $15,500,000, plus the Pay Act supplemental request of $314,000.

The 302 full-time positions, however, does represent a decrease of 4 positions over the 1983 fiscal year of 306 positions.

I will not break down the $881,000. I will be happy to respond to any questions in that area. However, I would like to point out that more than 72 percent of the budget covers personnel and benefit related costs, the rest being in the area of travel and other GSA requirements in terms of mandatory increases for the cost of leased space.

In addition, another 14 percent is allocated to mandatory indirect assessments. The remaining items in the budget will cover telephone and equipment rental, transportation, and other miscellaneous items.

So as you can see, the Federal Labor Relations Authority budget is very labor intensive. In reviewing this budget, there are several areas, though, which are crucial to the success of the Authority, and one is staffing.

This budget provides for resources to enable the agency to fill and staff key positions on an ongoing basis for fiscal year 1984.

NECESSITY OF TRAVEL EXPENSES

The second area of concern I would like to just note is travel expenses for the agency. In the past the Office of the General Counsel, the Federal Service Impasses Panel, the Office of Administrative Law Judges, and the Office of Solicitor have experienced delays in processing cases because of a shortage of travel funds, or because of travel restrictions imposed because of overall budget cuts.

And basically what this budget does is it restores the level of travel necessary for this agency to function on an ongoing basis.

IMPORTANCE OF STAFF TRAINING

The third area of concern relates to the availability of staff training. Staff training has been one of the first items to be halted whenever budget cuts were imposed, and this budget provides for a full level of staff training, essential to the development of the staff and the full utilization of personnel resources.

Before closing, I would like to make one other comment with respect to the current state of the Federal Labor Relations Authority. First, all components of the Authority are accomplishing their primary objectives despite the financial hardships under which the agency has operated. We have increased productivity.

Because General Counsel Miller and Chairman Howlett are here with me, I believe they have a few comments they want to make with respect to their areas, and so I will not go into any further detail in that particular area.

Senator ABDNOR. Well, thank you. Mr. Miller, Mr. Howlett, whichever one of you gentlemen care to go first is fine.

Mr. MILLER. Thank you, Senator Abdnor.

Just a few brief comments. As the newly appointed General Counsel, I wanted to at least detail the functions of my office.

FUNCTIONS OF THE OFFICE OF GENERAL COUNSEL

First, we are independent from the Authority, and my principal functions are to investigate and prosecute unfair labor practices. We process representation cases, that is, where a union has petitioned to represent employees. And last, I supervise the employees in nine regional offices and three subregional offices. Those are my principal functions.

My budget request, which is embraced within the Chairman's, amounts to approximately $9.5 million for the General Counsel in fiscal year 1984. It's an increase of $743,000. Now, that may sound like a big increase, but when we examine it, it's not.

We are actually decreasing our full-time positions from 171 to 169 for fiscal year 1984, and the increase in funds is for essentially three areas: Personnel compensation and benefits; mandatory GSA space assessments, that is, GSA raises our rent and we have to pay it; and last, travel.

Travel is an essential function because, for example, in one regional office, I'll use an an example, Denver. It has 10 States to cover where anybody files a charge involving Federal employees.

So, consequently, travel costs are a big element in our regional offices.

I think that this budget request is sufficient to meet our requirements.

Now, I must also stress that while we are going for an increase, we are attempting to keep our case processing costs to a minimum. We hope that increases in productivity will enable our actual case processing costs to remain about the same.

PATTERN OF CASE INTAKE

Now, I assume you are aware that we have no control over the size of our case intake. It depends on employees filing charges or unions filing charges, or activities or agencies filing charges. So, in that sense, we do not control.

Senator ABDNOR. It is a constant figure over the years? I mean, does it fluctuate greatly?

Mr. MILLER. Well, it's been gradually increasing, except that we had a decrease, I believe, in 1982.

We had, according to Mr. Baily here, we had a sharp increase in 1981 and a falloff in 1982. Now, we are projecting a total of 5,800 new cases, which is about a 4.7-percent increase over 1982, or over fiscal year 1983.

So we think that is a reasonable estimate of an increase, and we are already seeing quite an increase in our case intake in the last month or two.

So, we feel that we can handle that increase with the appropriations we've requested.

DISTRIBUTION OF UNFAIR LABOR PRACTICE CASELOAD

Now, of course, we've already submitted the detailed written budget justification, and I just want to indicate, for example, a typical example, of 100 unfair labor practice cases. Out of 100, approximately 36 are found to have merit. The rest are either dismissed, withdrawn, or found to have no merit whatsoever. So, out of 100 cases filed, we find that 36 have merit.

Of that 36, we ultimately process only 3 up to the Authority. The rest are settled at some step in the process. Either there's a compromise, there's a settlement worked out between the agency and the charging union, before the issuance of complaint or before we open the hearing, the parties reach agreement.

So, we actually only litigate 3 out of 100 cases all the way up to the Authority level. And, of course, that's where the expense comes.

Our cost of handling the rest of our cases are less than $1,000 per charge, but when we get into the litigation, and go all the way up to the Authority, it can amount to 20 times that.

Now, I see two principal challenges in the fiscal year ahead. First, we want to sustain a high voluntary rate of settlement. And I think people who just look at the case decisions ignore the substantial effect that our settlement has on good labor management relations in the Federal sector. In other words, there is a dispute, and it's resolved within 30, 60, or 90 days, that's probably the most effective aspect of our program.

The cases that are litigated and take an additional 2 years are those that cannot be settled, where people have taken hardened positions. So, it's important to maintain that high settlement rate.

We hope to maintain roughly a 90- to 92-percent settlement rate.

Second, we want to timely process our caseload. It certainly doesn't do any good for somebody to file for an election and not get an election for a year, or a year and a half. So we're giving increased emphasis—I'm not saying that we haven't done this in the past, but there's always problems that have arisen. Last year when we did sustain a 25-percent RIF and a limitation on travel, obviously our case handling had to suffer.

But in any event, we're committed to the accomplishment of both objectives, namely, stressing settlement, and timely processing of our caseload.

If you have any other questions, that's all I have.

Senator ABDNOR. Fine. Maybe Mr. Howlett wants to say something.

FEDERAL SERVICES IMPASSES PANEL

Mr. HOWLETT. Mr. Chairman, the Federal Service Impasses Panel consists of seven part-time members. We are an independent agency, but within the Federal Labor Relations Authority. We have the responsibility of resolving collective bargaining impasses between the departments and agencies of the Federal Government and the unions representing Federal employees.

When I served previously as Chairman by appointment of President Ford I was told that we were the second smallest agency in the Federal Government, the only one smaller being the Canadian Boundary Commission.

At that time we had a staff of nine employees. At the present time we have seven.

So, we are smaller now than we were when I served previously.

Incidentally, when I saw Mr. Stockman recently, I said, "I suppose the Canadian Boundary Commission doesn't exist anymore because we haven't had a boundary dispute in a long time." And he said by all means it does. He said every retired Congressman wants to become a member of the Canadian Boundary Commission, because once a year they have a meeting up in a very plush resort in Canada.

So, we're still second smallest.

Senator ABDNOR. You're still second smallest. I thought maybe that would make you the smallest.

Mr. HOWLETT. Our budget request is $453,000 which is an increase of $5,000 over what we are receiving in 1983.

The panel has done, I think, since it was organized in 1970, a very creditable job in resolving these impasses. We are continuing to fulfill our statutory obligation, though any reduction in what I consider a very minimum budget would be very harmful to our activities and to our jurisdiction.

Senator ABDNOR. Thank you, Mr. Howlett, you're not exactly a big spender here. This 1-percent increase isn't going to exactly make you a big spender.

PREPARED STATEMENTS

So we appreciate your fine report, and as I said, the prepared statement is part of the record.

[The statements follow:]

Statement of Barbara J. Mahone

As the newly appointed chairman of the Federal Labor Relations Authority, I appreciate the opportunity to appear before you today to present the budget request for the Federal Labor Relations Authority for Fiscal Year 1984. Before I begin my formal testimony, I would like to introduce my colleagues who are appearing with me today. First, I would like to introduce the two other Members of the Authority, Mr. Ronald W. Haughton and Mr. Henry B. Frazier III. Next I would like to introduce Mr. John C. Miller, the newly appointed General Counsel of the Federal Labor Relations Authority. Also joining us today is Mr. Robert G. Howlett, the chairman of the Federal Service Impasses Panel, which is an entity within the Federal Labor Relations Authority. Finally, I would like to introduce the key senior staff of the agency who have accompanied us today: Mr. James J. Shepard, the Executive Director of FLRA; Mr. Harold D. Kessler, the Deputy Executive Director; Mr. S. Jesse Reuben, the Deputy General Counsel; Mr. Howard W. Solomon, the Executive Director of the Federal Service Impasses Panel; Mr. John H. Fenton, Chief Administrative Law Judge; Mr. Leighton Sattler, who is handling Congressional liaison; Mr. George B. Baily, Jr., the Acting Deputy Director of Administration for Financial Management and Administrative Services; and Mr. Clyde B. Blandford, Jr., the FLRA Director of Personnel. For your information, Mr. Reuben served as the Acting General Counsel of the Federal Labor Relations Authority for the eight months preceeding the confirmation of Mr. Miller as General Counsel.

The budget request for the Federal Labor Relations Authority for Fiscal Year 1984 totals $16,695,000 and includes provision for 302 full-time permanent positions. The total of $16,695,000 is an increase of $881,000 from the level of the continuing resolution approved for the Federal Labor Relations Authority in Fiscal Year 1983, $15,500,000, plus the pay act supplemental request of $314,000. The total of 302 full-time permanent positions requested in Fiscal Year 1984 is a decrease of four positions from the Fiscal Year 1983 total of 306 full-time permanent positions.

Of the total increase of $881,000 requested for Fiscal Year 1984, specific increases are requested in the following four major areas.

First, a total of $550,000 is requested in the area of personnel compensation to provide for the following three fixed costs --

- full year funding for the general pay increase effective October 3, 1982;
- annualization of the costs of raising the "pay cap" in December 1982; and
- full year funding for positions vacant through the first six months of Fiscal Year 1983, including the positions of General Counsel and the Solicitor of the Federal Labor Relations Authority.

Second, a total of $83,000 is requested to provide for the increased costs of personnel benefits associated with the increased costs of personnel compensation listed above and to provide for the annualization of the costs of health insurance premiums for Medicare.

Third, $113,000 is requested to provide full year funding of travel, the impact of restrictions imposed on travel through the first quarter of Fiscal Year 1983.

Fourth, a total of $157,000 is required to provide for mandatory increases in costs of currently leased GSA rental space. Despite the fact that we have released space both in the Headquarters of the FLRA and in the Regional Offices, our total costs for rental space will increase in Fiscal Year 1984.

The mandatory increases I have just outlined will be offset by a reduction of $22,000 in a combination of areas -- costs of temporary positions and overtime, costs of severance pay and unemployment compensation paid to former FLRA employees, and the costs of equipment rental and purchase.

Since I was confirmed, I have had the opportunity to review this budget request and I recommend it to you for your approval. I believe that the resources provided in total in this budget request are adequate to meet the needs of the Federal Labor Relations Authority in Fiscal Year 1984. At the same time, this level of resources will require prudent management on our part to ensure the effective and efficient use of resources allocated to us.

Briefly, I would like to review for you the situation in which I see the Federal Labor Relations Authority, in the context of this budget request. The Federal Labor Relations Authority is essentially divided into seven components--Executive Management, the Office of the General Counsel, the Office of the Solicitor, the Office of the Chief Counsel, the Office of Administrative Law Judges, the Federal Service Impasses Panel, and the Office of Administration.

The Executive Management function consists of the Offices of the Members and the Office of the Executive Director. It is responsible for the overall management and direction of the Agency, including Congressional relations and public information, and ensuring equal employment opportunity. As I believe you are aware, the Members function in a quasi-judicial capacity in deciding cases arising under the Federal Service Labor-Management Relations Statute.

The Office of the Chief Counsel does the initial research and drafting of decisions for the Authority including exceptions to arbitration awards, negotiability cases, representation cases, and unfair labor practice cases.

The Office of the Solicitor is responsible for representing the Authority in all matters coming before the courts including appeals of our decisions and enforcement of our orders. The Office of the Solicitor is also responsible for advising the Members, Executive Director and the Federal Service Impasses Panel on legal matters relating to administrative operations of the Agency.

The Office of Administrative Law Judges is responsible for hearing cases on unfair labor practice complaints issued by the General Counsel, and for recommending decisions to the Authority. Most all cases moving from the Regional Offices to the Authority for decision are initially heard by an Administrative Law Judge.

The Federal Service Impasses Panel, an entity within the Federal Labor Relations Authority, is responsible for assisting Federal agencies and unions representing Federal employees in resolving impasses which arise in labor negotiations. If mediation efforts provided by the Federal Mediation and

Conciliation Service prove unsuccessful, the Federal Service Impasses Panel assists the parties as required in finding a resolution to the impasse.

The Office of Administration is responsible for providing centralized administrative and management support services to all FLRA components. Included in these functions are -- budget and accounting support; space management; mail and messenger service; contracting, purchasing, and inventory of supplies; printing and reproduction services; and records and property management.

The Office of the General Counsel, with independent authority under the Statute, is responsible for investigating all alleged unfair labor practices under the Federal Service Labor-Management Relations Statute and under the Foreign Service Labor-Management Relations Statute. It is responsible for and has final authority over the issuance of all complaints and the prosecution of all complaints arising under these Statutes. The Office of the General Counsel is responsible for investigating and making the initial disposition on all petitions involving questions of representation, as well as supervising or conducting all representation elections and certifying the results of these elections to the parties. In this regard, the staff of the Office of the General Counsel conducts all hearings in representation cases. Finally, the General Counsel is responsible for directing and supervising the activities of all employees of the Regional Offices.

The legal authorities of the Federal Labor Relations Authority are contained in the following --

first, Reorganization Plan Number 2 of 1978, which consolidated the central policy-making functions in Federal labor-management relations under the Federal Labor Relations Authority, an independent agency;

second, the Civil Service Reform Act of 1978, which established the Federal labor-management relations program under a statute administered by the Federal Labor Relations Authority;

third, the Panama Canal Act of 1979, which expanded the jurisdiction of the Federal Labor Relations Authority to employees, including foreign nationals, of the Panama Canal area and U.S. agencies in the Panama Canal area;

fourth, the Foreign Service Act of 1980, which established a labor-management relations program for the members of the Foreign Service under a statute administered by the staff of the Federal Labor Relations Authority; and

fifth, the Federal Employees Flexible and Compressed Work Schedules Act of 1982, which grants the Federal Service Impasses Panel jurisdiction over negotiation impasses regarding alternative work schedules within 60 days after a party files a request for assistance.

Of the total of $16,695,000 requested in Fiscal Year 1984, $12,054,000 is requested solely for the costs of salary and benefits for authorized staff. With slightly more than 72 percent of its entire budget allocated to the costs of salaries and benefits, the Federal Labor Relations Authority is indeed a labor-intensive agency.

Next, a total of $2,392,000 is allocated to mandatory, indirect assessments -- GSA space rental costs, $2,097,000; Federal Telephone Service costs, $227,000; penalty mail costs, $60,000; and the Federal Employee Compensation chargeback, $8,000. This total of $2,392,000 comprises roughly 14 percent of the total Agency budget request. The costs of non-FTS telephones, rental of equipment and non-GSA space total $446,000, equal to roughly three percent of the total Agency budget request. The combined costs of salaries, benefits, indirect assessments, telephone and equipment rental equal nearly 90% of the total FLRA budget request for Fiscal Year 1984. The total costs allocated for supplies and law library subscriptions total roughly one percent of the total FLRA budget request. A total of only $13,000 is requested for the procurement of replacement equipment, equal to less than one tenth of one percent of the total Agency budget request.

The remaining items in the budget request are -- travel and transportation of persons, $828,000; transportation of things, $8,000; printing and reproduction of Agency materials, $210,000; reporting service contract costs, $341,000; equipment repair costs, $93,000; employee training costs, $46,000; accounting computer support, $45,000; employee health services, $21,000; and other miscellaneous services, $3,000.

Including the indirect operating costs provided in a centralized funding account, the allocation of funds requested in the FLRA Fiscal Year 1984 budget request is as follows -- Executive Management, $1,161,000; Office of the Chief Counsel, $2,900,000; Office of the Solicitor, $540,000; Federal Service Impasses Panel, $453,000; Office of Administrative Law Judges, $1,067,000; Office of the General Counsel, $9,447,000; and Office of Administration, $1,127,000.

In the allocation of funds, I would like to emphasize that the distribution of funds within the Federal Labor Relations Authority has been concentrated in areas of direct case processing activity. Despite the increases in the budget levels, the Office of Administration will operate with less funds in Fiscal Year 1983 than in Fiscal Year 1982 and less funds in Fiscal Year 1984 than in Fiscal Year 1983. This demonstrates the success of efforts within the Agency to manage our resources more effectively.

There are several areas crucial to the Federal Labor Relations Authority. One is staffing. I believe that adequate resources are allocated to the Executive Management function, where we plan to maintain the number of positions allocated in Fiscal Year 1983. Similarly, in the Office of Administration the allocation of positions seems adequate to ensure effective and efficient performance. Based on the workload estimates contained in this budget submission, it appears to me that the allocation of positions to the Office of Administrative Law Judges appears sufficient to ensure the timely processing of its workload. However, the allocation of positions in the Office of the Solicitor and in the Office of the Chief Counsel must be monitored closely. Both components have operated, and are continuing to operate, under tremendous pressure of burgeoning workloads at a time when critical positions have had to go unfilled because of budget considerations. The funds we are requesting in this budget should enable us to fill key positions. The Office of the Solicitor has been able to maintain the current processing of its caseload and the Office of the Chief Counsel has already made significant strides in improving productivity in both instances in large part because of the dedication of the staff. It appears that both components will actually perform better than the budget workload estimates for Fiscal Year 1983. As I said, we will monitor closely the performance of these offices.

My second area of concern is related to the level of travel expenses for the Agency. In the past, the Office of the General Counsel, the Federal Service Impasses Panel, the Office of Administrative Law Judges and the Office of the Solicitor have experienced delays in processing cases because of a shortage of travel funds, or because of travel restrictions imposed because of overall budget cuts. This budget restores the full level of travel necessary for this Agency to function. It is anticipated that the impact of the full level of travel will be reflected in reduced backlogs and higher levels of productivity in Fiscal Year 1984. As noted in the budget submission, it appears that a travel reduction of roughly $20,000 resulted in lost productivity to the Federal Government of roughly one quarter of a million dollars in the Office of Administrative Law Judges alone. Adequate funding for travel is essential if the Federal Labor Relations Authority is to process its caseload in a timely and effective manner. Travel is required for the on-site investigation of cases involving representation petitions and allegations of unfair labor practices. The presence of Regional Offices throughout the country serves to reduce the costs of travel, rather than to eliminate the costs of travel. If the parties had to travel to the Regional Office locations for the processing of their cases, the costs to the Federal Government would be many times greater than the costs incurred by sending our field agents to the site. The impact of travel is seen in the disposition of unfair labor practice cases. Voluntary settlement is more readily obtained when field agents of the Office of the General Counsel and the administrative law judges can travel to the worksite in a timely manner, rather than having to defer the processing of cases. We find that with delay, the positions of the parties often become hardened and voluntary settlement is more difficult to obtain. Further, the necessity for travel is seen in the budget for the Federal Service Impasses Panel, which requires adequate travel funds to hold meetings of the Panel. Last year, no meeting of the Panel was held in the last two months of the fiscal year because of the shortage of funds. As a result, a backlog in its caseload grew. With the increasing requirement for the Office of the Solicitor to represent the Authority in courts throughout the country, the requirement for travel in this component is increased over previous years.

My third area of concern relates to the availability of staff training. It seems that staff training is one of the first items to be halted whenever budget cuts are imposed. This budget request provides for a full level of staff training, essential to the development of the staff and the full utilization of our personnel resources. In the past, essential and mandatory training of staff was foregone, including supervisory training and training in equal employment opportunity goals and objectives. I am aware of some of the problems which the Federal Labor Relations Authority has faced in the past, and believe that, to some degree, they could have been eliminated with proper training of staff. As a result, I strongly urge you to approve the full level of training requested in this budget.

Before closing, I would like to comment on the current state of the Federal Labor Relations Authority as I see it. First, all components of the FLRA are accomplishing their primary objective. Despite the financial hardships under which the Agency has operated, we have increased productivity.

Because General Counsel Miller and Chairman Howlett are planning to address their own activities, I will confine my remarks on the impact of this budget request to the remaining components of the Federal Labor Relations Authority.

The Authority disposed of a total of 636 cases in Fiscal Year 1982. This total included 147 arbitration cases, 201 negotiability cases, 88 representation cases and 200 unfair labor practice cases. This total exceeded by 48% the total of 430 dispositions in Fiscal Year 1981. In Fiscal Year 1982, the total number of case dispositions exceeded intake by 111 cases, or roughly 21%. Backlogs in the Office of the Chief Counsel were reduced by four months in Fiscal Year 1982, from a level of 13.8 months carried into the year to 9.8 months at the end of the year. This degree of productivity is significant, and is projected to continue throughout the remainder of Fiscal Year 1983 and throughout Fiscal Year 1984.

In the Office of Administrative Law Judges, the backlog of cases was also reduced in Fiscal Year 1982. At the end of Fiscal Year 1981, a total of 317 caes were in actual backlog status. This total was reduced by 61 cases, 19.2 percent, in Fiscal Year 1982, dropping to a total of 256 cases in actual backlog status. This total is projected to remain relatively stable, at a level of roughly three months, throughout Fiscal Years 1983 and 1984.

Finally, with respect to the administrative problems which seem to have plagued this Agency, I want you to know that I am concerned about these problems and committed to ensuring that the steps already being taken in the Agency to correct these problems will be continued. I was encouraged to see in the recent GAO report that recommendations were not made because, and I quote, "officials have taken or are planning to take corrective actions to prevent the recurrence of such practices."

In closing, I urge your support for the pay act supplemental request of $314,000 for the Federal Labor Relations Authority for Fiscal Year 1983. Approval of these funds is essential if the FLRA is continue to operate efficiently and effectively for the remainder of the fiscal year. Even with approval of these funds, the Federal Labor Relations Authority will have had to absorb roughly 50 percent of the total costs of three non-discretionary increases effective since the first of the fiscal year --

- the general pay raise effective October 3, 1982;
- the costs of raising the "pay cap" effective in December 1982; and
- the agency costs of health insurance premiums for Medicare, effective January 1, 1983 and not previously budgeted for.

If we do not get this additional funding, I am afraid we may be forced to curtail our activities again, to the detriment of the labor-management relations program in the Federal Service.

Looking ahead, our long-range goal is to carry out the duties and responsibilities assigned to the Authority by the Federal Service Labor-Management Relations Statute and the Foreign Service Act. Our major objectives are to decide cases and issue decisions in an expeditious manner, carrying out the mandate of the Congress as well as to provide leadership in the development of a positive labor-management relations program in the federal sector. We will continue to emphasize the effective and efficient utilization of our resources in accomplishing the mission of our Agency. I am personally committed to eliminating the backlog of cases pending before the Authority, at the same time ensuring that the quality of our work will not suffer.

The budget request before you is designed to provide for adequate funding to support the Federal Labor Relations Authority's statutory responsibilities. We are committed to perform this mission in the most efficient and cost-effective manner.

Following the other testimony to be presented, I will be happy to respond to any questions which you might have. I look forward to working with you to ensure the fully efficient and effective operation of the Federal Labor Relations Authority.

Thank you.

STATEMENT OF ROBERT G. HOWLETT

My name is Robert G. Howlett and I am the chairman of the Federal Service Impasses Panel. I am pleased to have the opportunity to appear before you today to present the Panel's budget request for Fiscal Year 1984. Accompanying me is Howard W. Solomon, Executive Director of the Panel, who has already been introduced.

The budget request for the Panel for Fiscal Year 1984 totals $453,000. This represents an increase of $5,000 from the amount allocated to the Panel, $448,000, as part of the continuing resolution and pay act supplemental requested for the Federal Labor Relations Authority in Fiscal Year 1983. Approval of the request for Fiscal Year 1984 will enable the Panel to maintain seven full-time permanent positions, a staffing level unchanged from Fiscal Year 1983.

Specifically, increases are sought in the following areas: travel ($5,000); communications and utilities ($4,000); personnel benefits ($1,000); and printing and reproduction ($1,000). Additionally, an increase of $2,000 is necessary because of a mandatory increase in the costs of GSA rental space (SLUC). These increases are partially offset by reductions in personnel compensation and equipment costs.

Briefly, I would like to review the composition and mission of the Panel in the context of the Fiscal Year 1984 budget request. As an entity within the Federal Labor Relations Authority, the Panel exercises authority under 3 different statutes. First, the Panel has jurisdiction under the Federal Service Labor-Management Relations Statute to assist, upon request, Federal agencies and unions representing their employees in the resolution of collective bargaining negotiation impasses. Second, it exercises authority under the Federal Employees Flexible and Compressed Work Schedules Act of 1982 over disputes arising from agency determinations (1) not to establish a flexible or compressed work schedule, or (2) to terminate such a schedule. Third, pursuant to the Panama Canal Act of 1979, the Panel has jurisdiction to resolve impasses which may include foreign national employees of the U.S. Government in the area of the Panama Canal. Additionally, the Panel's staff supports the Foreign Service Impasse Disputes Panel in resolving negotiation impasses arising under the Foreign Service Act of 1980.

The other Panel Members, who also serve on a part-time basis, are N. Victor Goodman, Daniel H. Kruger, Jean T. McKelvey, Susan S. Robfogel and Donald F. Rodgers. Currently, one position is unfilled. All of the Members are experienced labor-relations professionals from different parts of the country whose presence lends acceptance and credibility to the Panel's decision making. They are supported by a full-time professional and clerical staff of seven persons based in Washington, D.C. Furthermore, former Chairman Howard G. Gamser and I also serve as members of the Foreign Service Impasse Disputes Panel which is experiencing a rising caseload.

For over a decade the Panel has encouraged the voluntary settlement of disputes that have been brought to it. This approach reflects the widely-held view that the best kinds of agreements are those worked out by the parties themselves. To this end, the Panel uses in an unpredictable manner a variety of techniques such as directing the resumption of negotiations, factfinding, and arbitration. As the Federal sector's substitute for the strike and lockout, the Panel attempts to tailor its dispute-resolution procedures to the specific needs of the parties before it.

In support of its broad, worldwide jurisdiction, the Panel received 3 percent of the total Authority budget during Fiscal Year 1983. Approval of the Fiscal Year 1984 request will result in no increase in that percentage. Moreover, the request constitutes an increase of only 1 percent over the Panel's Fiscal Year 1983 allocation. Thus, the Panel will continue to operate at a level essentially unchanged from that approved for Fiscal Year 1983.

Although the Panel will continue to fulfill its statutory obligations at the Fiscal Year 1984 funding level, any reduction in that level would be very harmful. A quick response to disputes, including those which threaten the nation's security, would be more difficult. Since our operation is heavily labor-intensive--approximately 90 percent of our budget is allocated to personnel and travel--it is extremely difficult to absorb budget cuts.

Statement of John C. Miller

As the General Counsel of the Federal Labor Relations Authority, I appreciate this opportunity to appear before you to present the budget request for the Office of the General Counsel for Fiscal Year 1984. I am happy to be here as the newly appointed General Counsel and to be able to report to you a year of significant achievements in the timely processing of its caseload. We are looking ahead to similar levels of performance under this budget request, while planning to keep our case processing costs to a minimum.

The Office of the General Counsel, hereafter General Counsel, is an independent component of the Federal Labor Relations Authority, directly responsible for investigating all alleged unfair labor practices under the Federal Service Labor-Management Relations Statute and under the Foreign Service Labor-Management Relations Statute. It is responsible for and has final and independent authority over the issuance and the prosecution of all complaints arising under the Statutes listed above. The General Counsel is also responsible for investigating and taking the initial disposition on all representation petitions in addition to being responsible for supervising or conducting all representation elections and certifying the results of these elections to the parties. Finally, the General Counsel is directly responsible for directing and supervising the activities of all employees of the Regional Offices.

A total of $9,447,000 is requested for the General Counsel in Fiscal Year 1984, an increase of $743,000 over the total allocated for Fiscal Year 1983. A total of 169 full-time permanent positions are requested in Fiscal Year 1984, a decrease of two positions below the total approved for Fiscal Year 1983.

As with the budget of the Authority in total, the increase in funds is essentially contained in three areas -- personnel compensation and benefits, $518,000; mandatory GSA space assessments, $126,000; and travel, $81,000. The increase in the cost of GSA space will be incurred despite our successful efforts to reduce actual space requirements in Fiscal Year 1984 for the Regional Offices. Finally, a net increase of $15,000 is requested to cover the increased costs of court reporting services, printing and reproduction, supplies and materials, equipment repair contracts, and employee training requirements.

The significant increase in the costs of personnel compensation and benefits reflects a combination of the following costs -- full-year funding for positions initially held vacant at the beginning of the fiscal year; full-year funding for the costs of raising the "pay cap" in Fiscal Year 1983; full-year funding for the general pay raise approved at the beginning of Fiscal Year 1983; and full-year funding for the costs of health insurance premiums initially charged to the General Counsel in Fiscal Year 1983. As stated above, the increase in the cost of space occupied by our Regional Offices comes despite our successful efforts to reduce the actual square footage requirements from levels at the beginning of Fiscal Year 1983. Finally, the request for additional travel funds reflects the impact of full-year funding of the travel requirement for the General Counsel, compared to Fiscal Year 1983 when stringent travel restrictions were imposed through the first quarter of the fiscal year.

The level of funding provided in this budget request is sufficient to meet our requirements. The need for adequate travel funds in the General Counsel has been well documented in the past. The reasons for this have recently been emphasized by the General Accounting Office in its informal report to the Congress, dated March 11, 1983 concerning the impact of the FY 1982 budget reductions in the Authority. The provision of an adequate level of travel will ensure the timely disposition of the caseload pending before the General Counsel including the timely settlement and prosecution of unfair labor practice cases determined to have merit. Adequate travel funds will enable the General Counsel to achieve a higher rate of voluntary settlement, because based on our past experience, prompt on-site processing of unfair labor practice charges tends to result in voluntary settlement prior to the hardening of positions by the parties involved. The provision of adequate travel funds also results in the increased quality in the investigation of cases, for three reasons -- less reliance on conducting indirect investigations by telephone and mail; less delay in investigations; and more time to conduct in-depth investigation of cases when on-site visits are made.

At the same time that we talk about increases, it should be stressed that we have been able to keep the costs of processing our caseload to a minimum.

Many of the increases outlined above will be offset by resultant increases in productivity, so that actual case processing costs will remain relatively unchanged from experience in previous fiscal years. For the bulk of our cases, total case processing costs roughly equal $1,260. This total includes all costs, both direct and indirect. Salary and benefit costs are included, as are the costs of travel, administrative and managerial support, and the costs of supplies, court reporting services as required, supplies, materials, rental equipment, etc. Excluding the costs of GSA space and telephones, the costs to the General Counsel of processing its caseload will fall below $1,100 per case action, comparable to prior years.

The General Counsel has no control over the size of its case intake. In Fiscal Year 1984, a total of 5,795 new cases are projected to be received. While falling sharply below the total of 6,918 new cases received in Fiscal Year 1981, the projected intake for Fiscal Year 1984 reflects a projected increase of 4.7 percent over the total of 5,537 new cases projected to be received in Fiscal Year 1983. The projected increase in case intake is consistent with the conclusions reached in the GAO study, which forecast that the numbers of unfair labor practice charges filed with the General Counsel would continue to rise in future years. Of the total of 5,795 new cases projected to be received in Fiscal Year 1984, 5,430 will involve allegations of unfair labor practices, equal to roughly 94 percent of the total case intake. A total of 365 representation petitions are projected to be received in Fiscal Year 1984, equal to projected intake in Fiscal Year 1983 and about 25 cases below the total representation case intake in Fiscal Year 1982. Except in Fiscal Year 1982, when case intake fell below actual intake in Fiscal Year 1981, our estimates of case intake have proven to be understated. While we are confident that the staff and resources provided to the General Counsel will be sufficient to handle the projected level of case intake, we are not in a position to cope with an unprojected sharp increase in case intake similar to that which occurred in Fiscal Year 1981.

As a part of the normal budget process, we have already submitted a detailed written budget justification in support of this Fiscal Year 1984 request. With your permission, I would like to touch briefly on some of the highlights of that justification and make a few other observations as well.

I have a firm belief in the collective bargaining process and a belief that proper implementation of this Statute will indeed result in the increased efficiency of Government operations. The long-range goal of the General Counsel is to provide a fair balance between the need of the Federal Government to maintain the efficiency of its operations and the rights of Federal employees to participate in the collective bargaining process. The General Counsel encourages all persons alleging unfair labor practices to meet with the persons against whom such allegations are made and, in good faith, attempt to resolve such matters both prior to and subsequent to the filing of unfair labor practice charges. The General Counsel strives to protect the rights of individual employees in their relations with labor organizations and agencies and to safeguard employee rights by investigating, resolving and prosecuting (when necessary) charges alleging violations of employee protections under the Statute.

The General Counsel is directly responsible for exercising general supervision over all employees in the Regional Offices and for ensuring the effective and efficient operation and administration of the Agency's nine Regional Offices. The General Counsel and his executive staff provide advice, assistance and review of all phases of Regional Office performance to ensure adherence to case handling standards. The detailed functions of the General Counsel and the structure of the Office are described in the budget justification materials previously submitted to the Committee.

The following brief look at the case flow of the General Counsel focuses on its principal challenges in processing its caseload. As noted above, we have no control over our caseload and must respond to all inquiries concerning possible violations of the Federal Service Labor-Management Relations Statute. In each of its nine regional offices and three sub-regional offices, the General Counsel has implemented both an informal and formal screening process which provides technical assistance to the clientele and thereby eliminates in many instances the filing of cases which clearly involve issues outside the parameters of our Statute.

When an unfair labor practice charge is filed, it is investigated and, if found to be meritorious, the parties are encouraged to settle voluntarily without further action. If settlement cannot be obtained, a complaint is issued and a hearing is held before an administrative law judge. Settlement efforts are encouraged constantly, and voluntary settlement is often obtained even after the issuance of complaint and prior to holding the hearing. In Fiscal Year 1982, the total settlement rate for the General Counsel reached a level of 89%, its highest level ever and marginally higher than the factor of 88.5% achieved in Fiscal Year 1981. Through the first five months of Fiscal Year 1983, the total settlement rate for the General Counsel reached a level of 92%, continuing the slight upward trend seen previously. A previous cost analysis determined that a decrease of one percent in the total settlement rate of meritorious cases could result in the eventual cost to the General Counsel of more than $110,000 by requiring additional work in the processing of its caseload to final resolution.

Cases found, after full investigation, to be without merit are either withdrawn voluntarily by the charging party or dismissed. The decision of the Regional Director in refusing to issue complaint is appealable directly to the General Counsel.

Outlined below is a summary of the outcomes of a typical sample of 100 cases, based on actual experience in Fiscal Year 1982. Of these 100 cases, 36 are found to have merit. Of these 36 cases, in three cases, informal settlement is obtained prior to the issuance of complaint. In 22 of these cases, a party settlement is obtained involving the withdrawal of the charge. In eight cases of this total of 36 cases, voluntary settlement is obtained following the issuance of complaint but prior to the close of the hearing. In only three cases must the case be referred to the Authority for disposition, incurring the substantial cost factors cited by the General Accounting Office in its recent report on the processing of unfair labor practice cases in the Federal sector.

In two of the three cases referred to the Authority, a hearing is held before an administrative law judge prior to being referred to the Authority. In the remaining case, a stipulation of facts is obtained, resulting in the transfer of the case directly to the Authority from the Regional Offices.

Of the remaining 64 cases found to be without merit, the charges are withdrawn in essentially half of all cases, 32 cases in this example. In 20 cases of the total of 64 cases found to be without merit, the charge is dismissed by the Regional Director and is not appealed by the charging party. Of the 12 cases remaining, in 11 cases where appeals are filed following the dismissal of the charge, the decision of the Regional Director is sustained. The decision of the Regional Director is reversed or remanded by the General Counsel in the remaining case.

At this point, I will divide my statement into three major sections --

Fiscal Year 1982 -- a review of the highlights of where we have been;
Fiscal Year 1983 -- a look at where we are; and
Fiscal Year 1984 -- a preview of what lies ahead and where we are going.

-- Accomplishments in Fiscal Year 1982 --

-. In Fiscal Year 1982, a total of 5,248 new cases were received. Included in the total of 5,248 new cases received were 4,860 unfair labor practice charges. The high level of case intake appears to be the combination of five factors, which are outlined below.

First, increased awareness by the clientele of the existence of the Office of the General Counsel, spread by technical assistance efforts and knowledge of our function.

Second, expeditious case processing provided by the General Counsel. In approximately 60 percent of all cases, disposition was made of the case within three months of the receipt of the charge. This factor fell roughly 30 percentage points below the factor for Fiscal Year 1981.

Third, the General Counsel encourages voluntary settlement of the charge, once merit is determined. In Fiscal Year 1982, 89 percent of all meritorious cases were settled voluntarily prior to the holding of a hearing. This factor was essentially equivalent to the Fiscal Year 1981 factor, 88.5 percent. Further, roughly two-thirds of all cases are won by the General Counsel if settlement is not obtained. The high settlement rate is, to a great extent, the result of clientele confidence in the professional judgment of the staff of the General Counsel in determining whether a particular charge is meritorious. In this regard, statistics verify that, once the Regional Office determines that a charge has merit, the determination ultimately is sustained in 95 percent of all cases.

Fourth, the General Counsel offers an accessible, cost-free mechanism to the parties to resolve disputes. It assists the parties in their bargaining relationships by its involvement in the resolution of their disputes.

Fifth, the results of previous activity result in increases in case intake. It should be recognized that, contrary to common perception, the increased issuance of Authority decisions under the Statute will not result in a decrease in caseload generally, nor in a decrease in the issuance of complaints and concomitant litigation. Because many of the decisions issued by the Authority will of necessity deal with complex issues, it can be anticipated that the parties will, through the use of unfair labor practice charges, attempt to explore the full meaning of these decisions. Both management and unions will undoubtedly test the outer limits and parameters of the Authority decisions. Their respective actions will result in an increase in cases and litigation. Moreover, it is this type of case which by its very nature does not readily respond to settlement efforts. This assumption, although contrary to some generally held perceptions, is not based on idle or unsupported speculation. An examination of similar experience in the private sector under the National Labor Relations Act will confirm this phenomenon.

It is for these reasons that case intake is projected to sustain the level of increases which are projected. Labor relations activities affecting the operation of the Federal Government and involving Federal employees are the responsibility of the Federal Government. Were the Federal Government not involved in developing and perpetuating an effective labor management relations program, in my view severe consequences could result -- reduced levels of productivity and patterns of activity disruptive to the normal operation of the Federal Government.

With respect to the unfair labor practice charges now being filed, two trends are noticeable -- first, charges are now being filed which explore the full meaning of Authority decisions; and second, charges are now being filed which involve disputed facts and the credibility of witnesses, in contrast to earlier charges which involved solely questions of statutory interpretation. These two types of cases are the most difficult in which to obtain voluntary settlement. However, voluntary settlement will continue to be obtained in more than four out of every five cases which are determined to be meritorious. As a result, at most only six percent of all unfair labor practice charges filed will need to be brought before the Authority for decision. The peaceful resolution of labor disputes through the voluntary settlement process encouraged by the Regional Offices remains the most desirable alternative of dispute resolution. When long delays are built into our case handling processes, the positions of the parties become hardened and voluntary settlement is more difficult to achieve. For this reason, direct and substantial benefits accrue to the efficient operation of the Federal Government when unfair labor practice charges are investigated and decided with reasonable expedition.

Fiscal Year 1982 was a year of significant accomplishment of the staff of the General Counsel. Because of the very high productivity achieved by the staff again last year, I am confident that we will be able to successfully meet the demands of the difficult years ahead. I would like to take just a minute to emphasize to you the four factors which I consider most important in the overall accomplishments of the General Counsel during Fiscal Year 1982.

First, the extremely high percentage of meritorious unfair labor practice cases in which voluntary settlement was obtained, thereby avoiding the expense and disruption to labor-management relations which litigation involves.

Second, the very high level of productivity sustained in the General Counsel, enabling us to process the bulk of our cases in a timely manner.

Third, the continued successful implementation of a comprehensive and sophisticated system of statistical reporting, productivity measurement and performance evaluation.

Fourth, the sustained ability of the General Counsel to keep its direct case processing costs below a level of $1,100 per case.

We believe that each of these accomplishments will be sustained or improved upon during Fiscal Year 1983. In Fiscal Year 1982, 36 percent of all unfair labor practice cases were determined, after full investigation, to have merit. This factor was essentially equal to the factor for Fiscal Year 1981, 37.5 percent. As stated earlier, voluntary settlement was obtained in 89 percent of all meritorious cases in Fiscal Year 1982. In 68 percent of all meritorious cases, voluntary settlement was obtained prior to the issuance of complaint. This factor increased by roughly ten percentage points over the factor for Fiscal Year 1981. As a result of these settlement efforts, only 3.3 percent of all unfair labor practice cases filed needed to be brought before the Authority for decision, markedly below the factors for Fiscal Years 1980 and 1981, 5.8 percent and 5.2 percent respectively. For this reason, we believe that we can see direct and substantial benefit to the efficient operation of the Federal Government when we have done our work with reasonable expedition.

The concept of "reasonable expedition" leads me to a second significant accomplishment of the General Counsel in Fiscal Year 1982 -- the sustained high level of staff productivity. Estimated productivity per position increased in Fiscal Year 1982. Depending on the type of activity, productivity estimates for Fiscal Year 1984 range from 60 cases per position to 104 cases per position per staffyear, with increases ranging from six cases to nine cases per position over current levels of productivity. Despite the slight loss of positions in Fiscal Year 1984, the General Counsel is projecting to increase its number of dispositions in every workload category over comparable levels in Fiscal Year 1983. The high levels of productivity enabled the General Counsel to maintain relatively low levels of backlogs throughout Fiscal Year 1982, despite the impact of reductions absorbed during the year.

-- Current Status - Fiscal Year 1983 --

Through the first five months of Fiscal Year 1983, many of the problems seen previously have been eliminated. The resources with which we have been provided are adequate to meet our needs, and our case intake is very much in line with projections made at the beginning of the fiscal year and which are contained in the budget submission before you.

Through the first third of the fiscal year, we have received a total of 1,787 new cases. This total is within one percentage point, about 50 cases, of a proration of our budget estimate through the first four months of the fiscal year. Of the total of 1,787 new cases received, 1,677 cases involved allegations of unfair labor practices. Again, this total is within one percentage point of a proration of the budget estimate through the first third of the fiscal year. Of the total of 1,677 unfair labor practice cases filed, 1,598 cases involved charges filed against agencies or activities, equal to 95.7 percent of the total unfair labor practice intake. This factor of roughly 96 percent is essentially equal to factors seen in each of the previous three fiscal years. A total of 110 representation petitions were received through the first four months of the fiscal year, within 12 cases of a proration of the budget estimate through the first third of the fiscal year.

Other factors have also continued trends seen previously. The merit factor equalled a level of 37.5 percent, slightly above the factor for Fiscal Year 1982. In total, as mentioned earlier, the total settlement rate for the General Counsel reached a level of roughly 92.5 percent through the first third of Fiscal Year 1983, approximately three percentage points above the factor for Fiscal Year 1982 and the highest factor ever for the General Counsel.

From a budgetary vantage point, many improvements have been made. Sufficient travel funds are now available to the General Counsel to enable it to process its caseload in a timely fashion. Hearings in unfair labor practice cases are being scheduled in a more timely manner. Vacant positions are now being filled, as required. Plans are being made to fill the key positions of

Regional Director in the San Francisco and Denver Regional Offices, positions which have been held vacant for more than one year. Vacant attorney and labor relations positions are being filled. At the same time, efforts have been established, particularly in the Los Angeles and San Francisco Regions, to establish co-op programs with local colleges and universities to provide an on-going supply of entry-level applicants for vacancies in those areas as positions become vacant.

Limited training of staff has been resumed this year, with anticipated improvements both in the quality and quantity of work produced. Sufficient funds are available for court reporting services required in conjunction with hearings in unfair labor practice cases. Other restrictions are being relaxed on a more limited basis, while many other restrictions remain in place. Efforts are being made to complete the full automation of the statistical reporting system for the General Counsel, although the installation of a computerized research system for the Regional Offices continues to be held in abeyance. Assuming passage of the pay supplemental request, the level of funds currently provided are sufficient to enable the General Counsel to operate in an effective manner.

-- Overview of Fiscal Year 1984 --

For Fiscal Year 1984, I want to divide my remarks between the budget request and the impact of that request on our caseload. A total of 169 positions are requested for the General Counsel, a reduction of two positions from the total of 171 positions available to the General Counsel in Fiscal Year 1983. The total of $9,447,000 requested for the General Counsel will enable full-year funding for these positions.

Outlined below are the planned levels of expenditures, by object class, for the General Counsel in Fiscal Year 1984 --

Salaries and Benefits............................	$ 6,496,000	68.7%
Overtime..	---	---
Travel & Transportation of Staff................	650,000	6.9%
Shipment of Goods...............................	8,000	0.1%
Non-FTS Telephone Costs.........................	123,000	1.3%

FTS Telephone Costs	126,000	1.3%
Standard Level User Charges (SLUC-GSA)	1,263,000	13.3%
Non-GSA Space Rental Costs	5,000	0.1%
Rental of Word- and Data-Processing Equipment	141,000	1.5%
Printing & Reproduction (Forms, etc.)	36,000	0.4%
Court Reporting Service Contract Costs	320,000	3.4%
Equipment Repair Contracts	60,000	0.6%
Employee Training	25,000	0.3%
Employee Health Service Contracts	15,000	0.2%
Miscellaneous Services (Manpower Contract, etc.)	3,000	---
Penalty Mail	34,000	0.4%
Federal Employee Compensation Chargeback	5,000	0.1%
Law Library Subscriptions (Nine Regions)	75,000	0.8%
Office Supplies (Nine Regional Offices)	52,000	0.5%
Equipment (Replacement)	10,000	0.1%

I have gone into great detail concerning our budget to assure you, Mr. Chairman, and other distinguished Members of this Committee, that every dollar appropriated to the General Counsel will be dedicated to the furtherance of the Agency's mission. Our first priority in Fiscal Year 1984 is to fund the positions authorized for our use. We are providing full funding for our travel requirements, at the same time that we are holding travel to a level equal to that approved in Fiscal Year 1981. No funds are budgeted for the payment of overtime.

At this time, I again want to stress the critical role that the availability of adequate travel funds play in the effective implementaton of the Federal Service Labor-Management Relations Statute. The resolution of almost every charge and petition filed with the General Counsel involves a mandatory expenditure of travel funds. No viable alternative exists to a face-to-face investigation in the conducting of a complete inquiry regarding each case. Reduced travel funds will negatively affect the voluntary settlement of cases, with an adverse impact on the parties, on the effective operation of the Federal Government, and on our own ability to process additional cases.

In looking at our Fiscal Year 1984 budget, I want to briefly touch on two areas that concern me greatly. First, I want to stress to you my continued commitment to the principals of equal employment opportunity. I am proud of the record of the General Counsel to date and I pledge to do the most that I can to see it sustained.

Second, we want to stress to you that staff training is an essential component of the success of the General Counsel, and that it has played a significant role in its ability to sustain the current processing of its caseload. Training is essential in maintaining the quality of our staff in the complex field of labor-management relations and should be an integral part of our career development process.

In viewing the status of the caseload for the General Counsel in Fiscal Year 1984, I see two principal challenges --

first, to sustain the high voluntary settlement rate which has been characteristic of the General Counsel through its first three years of existence; and

second, to sustain the timely processing of its caseload.

I am committed to the accomplishment of both objectives.

With regard to the first challenge, it has always been one of the principal objectives of the General Counsel to maintain the highest possible level of voluntary settlement. Success in meeting the first challenge is critical if we are to meet the second. The earlier that voluntary settlement of a dispute is obtained, the more time our agents can devote to other cases. Success in sustaining a high rate of settlement significantly reduces the adverse impact of labor-management disputes between the Federal Government and its employees. The timely processing of cases is also essential in obtaining a high voluntary settlement rate because the positions of the parties tend to become less amenable to negotiation and voluntary settlement efforts the more prolonged the time between the filing of the charge and disposition. In our brief experience, we have noted that our voluntary settlement rate has increased in conjunction with the sharp reduction in our backlogs.

In the investigation of unfair labor practice cases, we project backlogs of only 1.5 months through the end of Fiscal Year 1984. We project that the level of dispositions will approximate the level of new cases received, both in Fiscal Year 1983 and again in Fiscal Year 1984. In Fiscal Year 1983, we project a total of 5,552 dispositive actions to be taken, compared to a total of 5,537 cases received. In Fiscal Year 1984, we project a total of 5,640 dispositive actions to be taken, compared to a total of 5,795 new cases received. At the end of Fiscal Year 1984, we project that a total of 1,317 cases will be pending without dispositive action, roughly 150 cases above the total of 1,164 cases projected to be pending at the end of Fiscal Year 1983 and again roughly 150 cases above the total of 1,177 cases pending at the end of Fiscal Year 1982. A total of roughly 820 cases are projected to be in actual backlog status at the end of Fiscal Year 1984, compared to a total of 692 cases in comparable status at the end of Fiscal Year 1983 and 716 cases in actual backlog status at the end of Fiscal Year 1982.

In the area of prosecution and settlement in unfair labor practices where complaint has issued, a backlog of roughly two months is projected in Fiscal Year 1984. This backlog is roughly equivalent to the backlog at the end of Fiscal Year 1982 and slightly below the projected level of backlogs at the end of Fiscal Year 1983. A total of roughly 1,000 complaints are projected to be issued both in Fiscal Year 1983 and in Fiscal Year 1984. In each fiscal year, roughly 1,000 dispositions are projected to be taken -- 969 dispositions in Fiscal Year 1983 and 1,020 in Fiscal Year 1984. Of the total, voluntary settlement is projected to be obtained in 70 percent of all dispositions, involving 678 complaints in Fiscal Year 1983 and 714 complaints in Fiscal Year 1984. A total of 373 complaints are projected to be pending without disposition at the end of Fiscal Year 1984, essentially equal to the totals for Fiscal Years 1982 and 1983, 348 complaints and 379 complaints respectively. A total of 200 complaints are projected to be in actual backlog status at the end of Fiscal Year 1984, slightly below the projected total for Fiscal Year 1983, and somewhat more above the total for Fiscal Year 1982, 160 complaints.

With respect to the workload for appeals of the refusal of the Regional Director to issue complaint, a total of 634 appeals are projected to be received in Fiscal Year 1984, slightly above the total of 625 appeals projected to be received in Fiscal Year 1983 and somewhat below the total of 663 appeals received in Fiscal Year 1982. A total of 624 appeal dispositions are projected for Fiscal Year 1984, again somewhat above the Fiscal Year 1983 total of 594 appeal dispositions. The backlog in Fiscal Year 1984 is approximately equivalent to the backlog projected for Fiscal Year 1983 and only two weeks above the backlog in the General Counsel at the end of Fiscal Year 1982.

With respect to the representation caseload, a total of 360 dispositions are projected in Fiscal Year 1984, essentially equal to the total of 365 dispositions projected to be received in that fiscal year. A total of 99 cases are projected to be pending at the end of the fiscal year, including 67 cases projected to be in actual backlog status. Equivalent to the projected level of backlog for the unfair labor practice caseload, in Fiscal Year 1984 the backlog of cases is equivalent to a level of two months. This backlog is equal to the level of the backlog forecast for Fiscal Year 1983 and only slightly above the level of the backlog at the end of Fiscal Year 1982, 1.5 months.

-- Conclusion --

This concludes my formal statement in support of the budget request for the General Counsel for Fiscal Year 1984. I have attempted to explain in detail the impact of this budget request on the Office of the General Counsel and on our ability to fulfill our mission. With the support and assistance which this Committee has provided in the past, we will continue to attempt to resolve Federal sector labor-management disputes in a timely manner, thereby minimizing disruptions to the efficient operation of the Federal Government. At this time I pledge to you that my staff and I will continue to strive to meet the challenges which we are certain to face. Thank you for your attention and will be happy to respond to any questions which you might have.

BIOGRAPHY OF BARBARA J. MAHONE

On March 7, 1983, the Senate confirmed the nomination of Barbara Jean Mahone to be a Member of the Federal Labor Relations Authority. The President intends to designate her chairwoman.

Miss Mahone has been associated with the General Motors Corporation since 1968. Since April 1982, she has been Manager, Industrial Relations, Packard Electric Division. She was

Director of Personnel Administration, Rochester Products Division, in 1978-82; Manager, Career Planning, Human Resources Management, in 1974-77; Staff Assistant, Employee Benefits Section, in 1973-74; and Computer Programmer/Systems Analyst, in 1968-71. She was a full-time student at the University of Michigan in 1971-73.

Miss Mahone graduated from Ohio State University (B.S., 1968); University of Michigan, Ann Arbor, (MBA, 1972); and Harvard Business School (PMD, 1981). She is the recipient of the 1976 Public Relations Award from the National Association of Negro Business and Professional Women, Inc., and the National Alliance of Businessmen Youth Motivation Task Force Award. She is listed among Outstanding Black Women in 1975. She was born April 19, 1946, in Nostagula, Alabama, and currently resides in South Russell, Ohio.

BIOGRAPHY OF RONALD W. HAUGHTON

Ronald Haughton, Chairman of the Federal Labor Relations Authority, has been active in labor-management affairs and the whole area of dispute resolution since he received an M.A. in Labor Economics at the University of Wisconsin in 1938.

Mr. Haughton has been an apprentice electrician for General Electric. He has worked with the Washington State Unemployment Compensation Commission, the Rockefeller Foundation, the U.S. Social Security Board, the War Labor Board, and the U.S. Department of Labor. During 1971-1972, he served as President of the Board of Mediation for Community Disputes in New York City. He is Professor Emeritus and a former Vice President at Wayne State University. He also served for over 20 years as Co-Director of the Institute of Labor and Industrial Relations of the University of Michigan and Wayne State.

Mr. Haughton has arbitrated some 4,000 cases in the public and private sectors. He has chaired several Presidential Emergency Boards and has been a permanent umpire for such companies as Ford, Goodrich, Bendix, Whirlpool, Armour, Clark Equipment Co., Columbia Gas, and Parke, Davis & Co.

Mr. Haughton has acted as a consultant to the Departments of State, Labor, and Defense, the Executive Office, and several foreign governments. He has drafted public employment legislation for the states of California and Michigan and has served as a Fact Finder for these and a number of other state and city jurisdictions. He is a member of the National Academy of Arbitrators, the Society for Professionals, in Dispute Resolution, the Society of Federal Labor Relations Professionals, the Industrial Relations Research Association, and a member of the Board of Directors of the American Arbitration Association. Mr. Haughton is a lifetime member of the N.A.A.C.P.

BIOGRAPHY OF HENRY B. FRAZIER, III

Henry B. Frazier III of Alexandria, Virginia, has served as a Member of the Federal Labor Relations Authority since January 11, 1979. His present term expires on July 1, 1985

The Authority is an independent agency in the Executive Branch and administers the Federal Service Labor-Management Relations Statute. It is responsible for adjudicating representation and unfair labor practice cases, negotiability disputes and appeals from arbitration awards. The Authority also provides leadership in establishing labor relations policies under the Statute.

Prior to his appointment to the Authority, Frazier was on the staff of the Federal Labor Relations Council (the predecessor agency of the Federal Labor Relations Authority) for 9 years, serving the last 6 of those years as its Executive Director.

Frazier previously had spent 11 years in personnel administration with the Department of the Army, serving in both operating organizations in the field and in staff organizations in the Pentagon. Immediately prior to joining the Council, he was Chief of Civilian Personnel Policy and Civil Rights in the Office of the Assistant Secretary for Manpower. While with Army he received from the Secretary of the Army the Exceptional Civilian Service Award—the Department's highest award for civilian personnel—and the first annual W.H. Kushnick Award for Outstanding Achievement in Civilian Personnel Administration in the Department.

Frazier holds a B.A. with Honors in Political Science from the University of Virginia and is a member of the Board of Managers of the University of Virginia Alumni Association. Frazier is an attorney and holds a J.D. with Honors from George Washington University Law School and an LL.M. in Labor Law from Georgetown University Graduate Law Center. He is a member of Phi Beta Kappa, the Order of the Coif, the Virginia Bar, the Bar of the District of Columbia, the Bar of the Supreme Court of the United States, the American Bar Association and the Society of Federal Labor Relations Professionals. He is an Air Force veteran.

BIOGRAPHY OF JOHN C. MILLER

John C. Miller was sworn in as General Counsel of the Federal Labor Relations Authority on March 8, 1983.

From December 1982 through March 7, 1983 Mr. Miller served as Chairman of the National Labor Relations Board. During the period of 1981 - 1982 he served as Chief Counsel to the Chairman of the National Labor Relations Board. From 1977 - 1981, Mr. Miller was an Administrative Law Judge with the NLRB. During the period of 1972 - 1977, he served as Solicitor of the NLRB and during that period also served for 3½ months as Acting General Counsel.

From 1971 through 1972, Mr. Miller was the Minority Counsel to the House Education and Labor Committee. The ranking minority Congressman was Albert Quie of Minnesota and the second ranking minority Congressman was John Ashbrook of Ohio.

From 1963 through 1971 Mr. Miller served as a Supervisory Attorney on the staff of Member Howard Jenkins of the National Labor Relations Board. His duties required the supervising of up to six attorneys, the regular attendance at meetings representing Board Member Jenkins, the making of initial determinations on pending cases and analyzing and recommending disposition of cases.

During the period of 1959 through 1963, Mr. Miller served on the staffs of National Labor Relations Board Members Rogers and Leedom.

From 1958 - 1959, Mr. Miller was an attorney in the Office of Appeals in the Office of the General Counsel of the National Labor Relations Board. In this capacity he reviewed and recommended disposition of cases on appeal from a Regional Director's refusal to issue a complaint on an unfair labor practice charge.

Mr. Miller was employed as an attorney with the Labor Relations and Legal Department of the Chamber of Commerce of the United States from 1955 through 1958.

Mr. Miller is a resident of Rockville, Maryland. He graduated from Bowling Green State University, Bowling Green, Ohio in 1950. He also holds an LLB and LLM degrees from Georgetown University Law School. These degrees were awarded in 1955 and 1957, respectively. Mr. Miller is the author of a Federal Bar Journal article (April - June issue 1958) entitled "Conflicts in Circuit Courts Over Enforcement of Arbitration Awards" and the author of a pamphlet entitled "Extortion" an analysis of laws governing political contributions by labor organizations and corporations. Mr. Miller is a member of the bars of the District of Columbia and the State of Ohio and is admitted to practice before the Supreme Court of the United States.

SAVINGS ACHIEVED FROM TURNING IN AGENCY CAR

Senator ABDNOR. You've all given excellent testimony and your statements are very fine. I don't have a lot of questions. As a matter of fact, if we have any we will submit them in writing.

But I might ask about a GAO report in your budget submission, that the Federal Labor Relations Authority has been able to reduce costs by returning its leased vehicles. We have vehicles in all these departments, and we commend the agency for your action.

For the record, do you have any information or estimates on the level of the savings achieved? Mr. Haughton probably knows that.

Ms. MAHONE. With respect to the leased vehicle, itself, it's my understanding that it is saving us $500 a month. The one thing that we are doing is evaluating the overall savings with respect to our other uses of transportation, versus savings by turning in the leased vehicle.

I would like to point out that this action was taken during the 1982 fiscal year when more than 24 percent of the staff had been reduced, and that included a reduction in force, and holding other positions vacant, and what other actions were taken at that point in time, it's just simply to eliminate every conceivable cost out of the budget possible. And so that is the reference the GAO report is making.

AUTHORITY CASE BACKLOG

Senator ABDNOR. Good. How is your backlog of cases today?

Ms. MAHONE. At the Authority level, we do have a backlog. We have four different types of cases that are handled at the Authority level: Arbitration type cases, negotiability, representation, and unfair labor practices.

When you look at what has happened with the backlog, our case intake is running ahead or parallel with the amount of cases that we're able to handle.

As I pointed out earlier, this budget reduces at the Authority level two staff positions, and so in essence, we have to make inroads into the backlog through the productivity improvements.

As a matter of fact, the productivity doubled in 1982 through streamlining the procedure that the Authority uses to handle cases. We have short-formed many of our decisions by using the case law that's before us. We have instituted some computerized tracking vehicles. We are doing everything possible to make the necessary productivity increases but as my colleague, Jack Miller, pointed out, because we have no control over the intake, the intake still runs ahead of what we're able to really process on an annual basis.

So, in some areas, we're still running a backlog to the equivalency of 1 year.

Senator ABDNOR. Does it vary a lot from region to region?

Ms. MAHONE. What I'm talking about, this backlog will be those cases that come directly to the Authority. Mr. Miller would have to comment in terms of the backlog from region to region at the unfair labor practice level and the representation case level.

Mr. MILLER. Well, essentially, Senator, we have no backlog as such. As cases are filed and processed, they take about a month or two to investigate and so forth. Now, we do have one region who was restricted in travel funds in the last quarter of fiscal year 1982, and as a result they have built up a backlog of about 150 cases, or 2 to 3 months backlog. We are hoping that this backlog is entirely cleared up by the end of June. The rest of the regions are fairly current.

Senator ABDNOR. What was the problem? Did you run out of funds for the particular region?

Mr. MILLER. Well, what we did, in order to save money, since we did RIF 24 percent of the personnel, we also cut back on travel. Instead of going to, say, Gaston, Ala., to investigate one case, we postponed that until there were three or four other cases. And sometimes that meant postponing investigation of that case for 3 to 4 months. As a result of which a backlog did develop, and we are working at that now, just in that one region.

The rest of the regions are fairly current.

FURNITURE ACQUISITION PROBLEM

Senator ABDNOR. Fine. One last question. I just have to ask you, about this property acquisition problem that we had last year. Are the new procedures implemented working out well? Or are you quite familiar with it?

Ms. MAHONE. Well, since I've been on board, I have devoted attention to this area, because obviously this was an area of grave concern to all of us. As my predecessor has indicated on a number of occasions, the things that happened were unfortunate—they were a mistake, but the one thing the agency has done is institute a procedure to make sure that the events that occurred in the past will not recur in the future.

With respect to financial management and the procurement area, we have developed procedures and implemented those to make sure that the necessary controls are in place. I would also like to point out that, heretofore, prior to the delegation of authority that was put into place, the three members had shared equally the administrative responsibility for the Authority. About 1 year ago the delegation of authority was put into place, such that the Chairman of the agency now is responsible for overseeing the administrative matters. That has done a lot to eliminate the practices and problems of the past for the agency.

I would expect to continue that, and my colleagues have given me their support.

Senator ABDNOR. Well, thank you. We're happy to hear that. We're glad that we have cleared that up.

Well, thank you all for appearing.

ADMINISTRATIVE CONFERENCE OF THE UNITED STATES

STATEMENT OF LOREN A. SMITH, CHAIRMAN

ACCOMPANIED BY:

STEPHEN L. BABCOCK, EXECUTIVE DIRECTOR
RICHARD K. BERG, GENERAL COUNSEL

BUDGET REQUEST

Senator ABDNOR. Our next witness is Mr. Loren Smith, who is Chairman of the Administrative Conference of the United States.

Mr. Smith, we welcome you and your colleagues to the committee.

You can proceed anyway you care to. But let me say, as you probably heard me say to the other witnesses, your entire written statement will be made a part of the record.

Mr. SMITH. Senator Abdnor, thank you very much for the opportunity to be here. I also want to commend the committee on not only the excellent relationship we've had with the committee, but because Chuck Parkinson of the committee staff came out to the Administrative Conference and spent some time going through what we're doing. And Bob Mills also came out, and we're gratified that they've come to see us. I think there's nothing that makes up for actually seeing the on-site operations.

Senator ABDNOR. Good. We're happy to hear that.

Mr. SMITH. Our agency is a small and unique one in Government in that we're both a think tank and we're also a working forum where both members of the executive branch and the independent agencies, as well as members of the public can get together and work toward two goals: One, improving the efficiency of the Federal administrative process; and, two, improving the fairness of that process.

And we have 41 members of the public who serve as members of the Administrative Conference, and those 41 members work without any compensation to help achieve those goals.

The last year has been an exceptionally productive one for the Conference. I won't go into specific details beyond the statement. I would just add that eight formal recommendations have come out of the Conference, which is, I think, high for us. Several of those, I think, have contributed significantly both to the goals of deregulation and to the goals of improving the fairness of the process. They've been getting some serious and significant consideration by the rest of the Government: One, on regulatory negotiation, which has strongly been recommended by Vice President Bush and by Senator Roth; and also our recommendation on procedures for regulating carcinogens, which is, I think, a fairly significant and important issue to the Government at this time.

The Conference has taken on additional new roles in this last year. The President had asked me to serve on the Cabinet Council on Legal Policy, which began last year, and I've continued to participate in that role. This year, the President appointed me to a second Cabinet Council, that on Management and Administration. And in that capacity, I hope we've contributed, and I believe we have, to the general improvement of the process, and the goals of taking some of the redtape off the backs of the American taxpayers.

The Conference has created an advisory group called the agency management information group to help me perform those roles on the Cabinet Council, and it's made up of a cross section of Government agencies that voluntarily get together with me to help me in representing them on the Cabinet Council.

A third activity which developed over this year—it was begun last year—was the creation of a new entity called the Council of Independent Regulatory Agencies which the President has asked me to chair. Monthly, the chairmen of the 14 major independent regulatory agencies, under our auspices, get together to compare notes, and share success stories, and to share failure stories and help improve the regulatory system.

Finally, back in 1981 I was asked by the Vice President to serve as a special consultant to the Regulatory Relief Task Force, and I've been participating in that role last year, and continuing in that role this year.

I would finally note that the Conference is requesting the full appropriation that was authorized by the Office of Management and Budget, and we feel that this is necessary because, in the last year, our research money was cut virtually to nothing, and to some extent we're living off the capital of past years, and the pipeline is beginning to run dry. We're somewhat in the position of a boat whose rudder is basically deteriorated, and we feel the additional money that OMB has requested for us will really supply that rudder for the future years, so that we can pilot our agency to do more good work.

I also should add one other thing before concluding. Chairman Ellingwood of the Merit Systems Protection Board mentioned the arbitration project, and mentioned, I think, that another agency was involved in helping them eliminate their backlog. That's my agency, the Administrative Conference, and we've been working very closely with the Merit Systems Protection Board on that program.

I thank you for this opportunity to testify. We will be happy to answer any questions.

Let me introduce, if I can, my staff.

Senator ABDNOR. Please do.

Mr. SMITH. Here with me at the witness table are Steve Babcock who is the Chief of Staff of our agency, and Dick Berg on my left, who is the General Counsel of the agency.

PREPARED STATEMENT

Senator **Abdnor**. Well, thank you for your fine statement.
[The statement follows:]

STATEMENT OF LOREN A. SMITH

My name is Loren A. Smith, and I am the Chairman of the Administrative Conference of the United States. I am accompanied here today by Stephen L. Babcock, the Executive Director of the Conference, and by Richard K. Berg, our General Counsel. I am pleased to have this opportunity to appear before you today in support of the President's fiscal year 1984 budget request, in the amount of $1,406,000, for the Administrative Conference. The President has also proposed a fiscal year 1983 pay raise supplemental request for the Conference in the amount of $59,000, which I also hope you will approve.

I believe that I can safely say that the ninety volunteers who are our Conference members, and the twenty people on my staff, can be proud of the accomplishments of the Administrative Conference in the twelve month period since we last appeared before you. In the area of research and formal recommendations, our members completed their deliberations on, and adopted, no less than six formal recommendations and two formal statements—a larger number of Conference actions than in almost any past year.

The important subjects of these recommendations are indicated by their titles: Exemption (b)(4) of the Freedom of Information Act, Resolving Disputes under Federal Grant Programs, Federal Venue Provisions Applicable to Suits Against the Government, Procedures for Negotiating Proposed Regulations, Federal Regulation of Cancer-causing Chemicals, Views of the Administrative Conference on Proposals Pending in Congress to Amend the Informal Rulemaking Provisions of the Administrative Procedure Act, Federal Officials' Liability for Constitutional Violations, Judicial Review of Rules in Enforcement Proceedings, and a Statement of the Administrative Conference on Discipline of Attorneys Practicing Before Federal Agencies.

In the area of implementation of our recommendations, we have begun our efforts on all of those adopted in 1982, and have seen much interest on the part of agencies and relevant committees of the Congress in them. As our Appropriation Justification Statement indicates, we are reporting important progress on our FOIA fees recommendation adopted in 1981, and on our recommendation advocating agency experimentation with regulatory negotiation.

During the current year, I have continued to participate in the deliberations of the Cabinet Council on Legal Policy, and have worked for better management and increased regulatory efficiency in the independent regulatory agencies in my capacity as Chairman of the Council of Independent Regulatory Agencies. Since we were last before you I also have been appointed to membership on the Cabinet Council on Management and Administration, and we have undertaken to help spread the word on the Cabinet Council's important financial management, personnel management, and organizational initiatives by creating another voluntary group called the Agency Management Information Group. This group is open to representatives from all non-cabinet line agencies, independent establishments and wholly-owned government corporations. While the Agency Management Information Group is just now getting underway, and I thus have nothing concrete to report, I hope you will take the time to at least glance at the report on regulatory relief at the independent regulatory agencies which our Council of Independent Regulatory Agencies released in November. (It is Attachment 4 to our Justification Statement.) I think that this report serves a valuable purpose in that it highlights the importance of eliminating unnecessary regulations, and of streamlining those that cannot be eliminated, thus reducing Federal control over and intervention in, the activities of our citizens.

We have also been active in advising agencies and in consulting with the Congress. Some members of the Subcommittee have displayed great interest in our Congessionally-mandated role in implementing the Equal Access to Justice Act. We have continued to do the best we can in this area, and I hope our efforts continue to warrant your approval. We also testified on certain procedural aspects of the Simpson-Mazzoli Immigration Reform bill, and our testimony resulted in substantial changes in the procedural provisions in the bill, which we believe will increase the fairness and efficiency of immigration adjudications. We have also assisted GSA and OMB in connection with two of our past recommendations: one on the Federal Advisory Committee Act and another on agency relationships with voluntary standard organizations, and we have worked with the Department of Transportation by preparing a scholarly overview of the issues involved in determining what kinds of adjudicative procedures that department should use in determining international air route allocations, when the Department of Transportation takes that function from the Civil Aeronautics Board on January 1, 1985.

During 1984 we expect essentially to continue what we are now doing. The President's Budget request will give us at least $100,000 to commission new research projects. During the past two years, our research program has been so to speak, "living off of its capital," in that we have completed more major research projects than we have had money to commence. This is not to say that we do not have good projects in the pipeline—those that are listed on Attachment 2 to our Budget Justification. But Congressional approval of this request for Fiscal 1984 will allow us to commission enough new projects to keep our pipeline going in the two year period ahead. We are considering a number of interesting ideas, which are listed on Attachment 1 to our Justification.

We will also in fiscal 1984 continue our "clearinghouse" efforts—basically the Council of Independent Regulatory Agencies (CIRA) and the Agency Management Information Group (AMIG), that I have just described. One of our former Chairmen, Antonin Scalia, now a judge sitting on the United States Court of Appeals for the District of Columbia Circuit, wrote in the Forward to our 1974 Annual Report that a major challenge facing the Conference is "to prevent the Balkanization of administrative law." My experience as Chairman has led me to agree with Judge Scalia. But I believe that the problem of Balkanization within the Federal establishment goes beyond administrative law per se and extends also to areas of administrative process, management, and organization. CIRA, AMIG, and perhaps even other specialized groups like them, can assist in the sharing of experiences and the dissemination of the best ideas in many subjects in addition to administrative law as defined by the parameters of the Administrative Procedure Act. Moreover, beyond our minimal staffing costs, these clearinghouse functions are virtually a free good. No one gets paid for attending these meetings. (And, I might add, the fact that no one is compelled to attend means that there is a strong burden on me and my staff to insure that the groups are in fact useful to their members—otherwise those efforts will justly die on the vine.) I think that I can say after almost one year's experience that CIRA as an organization is definitely useful to its independent regulatory agency chairmen members, in view of their continued interest and attendance. Next year, I will be able to give you a similar report on the Agency Management Information Group.

Finally, I wish to touch briefly on a most important point—the cost effectiveness of the Administrative Conference of the United States. As you know, since our ninety members volunteer their time in participating in the affairs of the Conference, our only out of pocket expenses attributable to them are paper and postage, plus transportation and expenses for those who must travel to Washington to attend meetings. Thus, in terms of a comparison with paid consultants, or in terms of the commercial value of the many hours per year that we receive free of charge from those who are attorneys in private practice, the Conference cannot help but be viewed as highly cost effective.

Still, nothing is entirely free, and the $1.4 million in our budget for fiscal 1984 is a real and substantial cost to the tax payers that we obviously must be able to justify to you. I think, however, that if you will consider the financial implications of some of our past recommendations, you will agree that the Conference is highly cost effective and continues to warrant the favorable consideration that it has received from this Subcommittee in past years.

Our recommendations are, of course, divided on a roughly even basis between those centered on fairness—which typically do not either relieve or impose costs on the Government or the public—and those concerned with efficiency. There are enough of the latter class, however, that the savings resulting from our work are substantial. To take a recent example, I mentioned earlier that our recommendation on Freedom of Information Act fees, adopted in 1981, was incorporated in legislation pending in the 97th Congress and is also incorporated in the newly-introduced S. 774, Senator Hatch's "Freedom of Information Reform Act." Our recommendation is that agencies should be allowed to recover for the Treasury the costs of reviewing and deleting agency records. Based on Department of Justice surveys conducted in 1978 and 1979, and on the report of the consultant professor on which our recommendation was based, it appears that the adoption of our recommendation will yield revenues of between $40 and $60 million per year.

To take a more recent example, one of the recommendations adopted in July of 1982, Procedures for Negotiating Proposed Regulations, advocates experimentation with a carefully constructed "regulatory negotiation." If it works, regulatory negotiation will eliminate or virtually eliminate the costly litigation that presently follows the promulgation or substantial amendment of any regulatory scheme. The overall costs to private parties and the Government of this massive litigation that now follows almost every major environmental regulation and major health and safety regulation—such as those on asbestos or cotton dust standards—clearly run into the several millions of dollars. Thus if our recommendation works, in even one situation, the savings will equal a sum several times the size of our annual budget.

To take a third example, which involves a smaller but more easily ascertainable savings, the Administrative Conference in 1981 responded to the Congressional mandate that it act as a consultant to all agencies on Equal Access to Justice Act regulations, by promulgating model regulations, which virtually all of the thirty-four affected agencies were able to simply copy for themselves, rather than having to re-engage in the extensive statutory, case law and legislative history review that our staff conducted. By estimating the cost to the government of our staff time, and the time of those who participated on the interagency task force we assembled for this effort (a total of $114,000), and by assuming that the use of the model within an agency saved about 80% of that figure, one can conservatively conclude that our efforts under the Act saved slightly in excess of $3 million. An amount, again, more than twice our annual budget.

Mr. Chairman, I have given you an overview of our efforts in the current fiscal year, and a brief description of what we intend to do with the funds that the President has requested for us for fiscal 1984. Finally, although I am well aware that it is difficult to be precise in attempting to quantify the benefits of Conference activities in dollar terms, I hope that I have persuaded you and the members of this Subcommittee that the Conference is cost effective and thus warrants your continued support.

We will be happy to answer any questions that you may have.

CONFERENCE MEMBERSHIP

Senator ABDNOR. What is the membership of your Conference?

Mr. SMITH. The Conference has 91 members, of which I am the only full-time member.

Senator ABDNOR. Ninety-one members. Do you work closely, in Conference work, with the Advisory Commission on Intergovernmental Relations on many activities? Well, for instance, your interests parallel that Commission's, right?

Mr. SMITH. Yes; we're a somewhat parallel organization. The Advisory Commission looks to the problems of Federalism, and we look to the problems of the internal administration of the Federal Government.

But we cooperate with them, and in fact, they're helping us on this agency management information group.

Senator ABDNOR. You have many volunteers, is that what you said, helping you in your work force? Twenty full-time employees, and 90 volunteers?

Mr. SMITH. Yes; we have a strange ratio in that our organization is much larger than our paid staff, so that the 90 members are voluntary. Forty-one of those from the private sector, and 49 from Government.

Senator ABDNOR. They will just send people over, people in the private sector, or how do you get these volunteers? Maybe we ought to do more of that.

Mr. SMITH. I think we are a good model for that. We appoint them. The Chairman gets to appoint 36 of the members from the private sector, and the President appointed 5.

Senator ABDNOR. They're more than willing to serve?

Mr. SMITH. Yes; they've been more than willing to serve, and they come from across both the political spectrum, the party spectrum, and they represent different specialties, lawyers, law professors, business, public interest people.

Senator ABDNOR. While you're at it, will you give us for the record a list of the Conference membership.

Mr. SMITH. Steve Babcock has a copy and he will give it to you.

Senator ABDNOR. Oh, he has one. Fine.

[The information follows:]

OFFICE OF
THE CHAIRMAN

MEMBERSHIP OF THE CONFERENCE

The Council

LOREN A. SMITH
Chairman
Administrative Conference of the United States
2120 L Street, N.W., Suite 500
Washington, D.C. 20037
Telephone: (202) 254-7020

RICHARD S. WILLIAMSON
Vice Chairman
Assistant to the President for
Intergovernmental Affairs
The White House
Washington, D.C. 20500
Telephone: (202) 456-7007

MARK S. FOWLER
Chairman
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, D.C. 20554
Telephone: (202) 632-6600

MICHAEL R. GARDNER
Akin, Gump, Strauss, Hauer & Feld
1333 New Hampshire Ave., N.W., Suite 400
Washington, D.C. 20036
Telephone: (202) 887-4116

WALTER GELLHORN
Professor Emeritus
Columbia University School of Law
435 West 116th Street
New York, NY 10027
Telephone: (212) 280-2664

EDITH D. HAKOLA
Vice President & General Counsel
National Right to Work Legal Defense
Foundation, Inc.
8001 Braddock Road, Suite 600
Springfield, VA 22160
Telephone: (703) 321-8510

JAMES C. MILLER III
Chairman
Federal Trade Commission
6th & Penn. Avenue, N.W., Room 440
Washington, D.C. 20580
Telephone: (202) 523-3711

T. TIMOTHY RYAN, JR.
Solicitor of Labor
Department of Labor
3rd & Constitution Avenue, N.W.
Room S-2002
Washington, D.C. 20210
Telephone: (202) 523-7675

EDWARD C. SCHMULTS
Deputy Attorney General
Department of Justice
10th & Constitution Avenue, N.W.
Room 4111
Washington, D.C. 20530
Telephone: (202) 633-2101

OTIS M. SMITH
Vice President & General Counsel
General Motors Corporation
14-242 General Motors Building
Detroit, MI 48202
Telephone: (313) 556-3565

EDWARD L. WEIDENFELD
1575 I Street, N.W., 5th floor
Washington, D.C. 20005
Telephone: (202) 789-2377

ASSEMBLY

Cornwell G. Appleby
Booz, Allen & Hamilton, Inc.
4330 East-West Highway
Bethesda, MD 20814
Telephone: (301) 951-2222

James K. Asselstine
Commissioner
Nuclear Regulatory Commission
Washington, D.C. 20555
Telephone: (202) 634-3308

A. James Barnes
General Counsel
Department of Agriculture
Washington, D.C. 20250
Telephone: (202) 447-3351

David M. Barrett
Barrett, Hanna, Daly & Gaspar
2555 M Street, N.W., Suite 100
Washington, D.C. 20037
Telephone: (202) 293-3204

Roger V. Barth
Barrett, Hanna, Daly & Gaspar
2555 M Street, N.W., Suite 100
Washington, D.C. 20037
Telephone: (202) 293-3204

C. Jonathan Benner
General Counsel
Federal Maritime Commission
Washington, D.C. 20573
Telephone: (202) 523-5740

Michael Bradfield
General Counsel
Board of Governors of
the Federal Reserve System
Washington, D.C. 20551
Telephone: (202) 452-3293

C. M. Butler III
Chairman
Federal Energy Regulatory Commission
Washington, D.C. 20426
Telephone: (202) 357-8200

William A. Butler
Vice President for Government
Relations and Counsel
National Audubon Society
645 Pennsylvania Avenue, S.E.
Washington, D.C. 20003
Telephone: (202) 547-9009

Joseph A. Cannon
Associate Administrator for Policy
and Resource Management
Environmental Protection Agency
401 M Street, S.W.
Washington, D.C. 20460
Telephone: (202) 382-4332

Betty Jo Christian
Steptoe & Johnson
1250 Connecticut Avenue, N.W., 7th Fl.
Washington, D.C. 20036
Telephone: (202) 862-2158

David A. Clanton
Commissioner
Federal Trade Commission
Washington, D.C. 20580
Telephone: (202) 523-3732

Calvin J. Collier
Hughes, Hubbard & Reed
1201 Pennsylvania Ave., N.W., Suite 300
Washington, D.C. 20004
Telephone: (202) 626-6226

H. Clayton Cook, Jr.
Cadwalader, Wickersham & Taft
1333 New Hampshire Avenue, N.W.
Washington, D.C. 20036
Telephone: (202) 293-6300

Louis A. Cox
General Counsel
United States Postal Service
Washington, D.C. 20260
Telephone: (202) 245-4632

Robert J. D'Agostino
Associate Professor
Delaware Law School of
Widener University
P.O. Box 7474, Concord Pike
Wilmington, DE 19803
Telephone: (302) 478-3000

Juan A. del Real
General Counsel
Department of Health and
Human Services
200 Independence Avenue, S.W.
Room 722A
Washington, D.C. 20201
Telephone: (202) 245-7741

Richard W. Duesenberg
Vice President and General Counsel
Monsanto Company
800 North Lindbergh Boulevard
St Louis, MO 63166
Telephone: (314) 694-2819

Dennis A. Dutterer
General Counsel
Commodity Futures Trading
Commission
Washington, D.C. 20581
Telephone: (202) 254-9880

Neil R. Eisner
Assistant General Counsel
Department of Transportation
Room 10421
400 7th Street, S.W.
Washington, D.C. 20590
Telephone: (202) 426-4723

Thomas F. Ellis
Maupin, Taylor & Ellis
P.O. Box 829
Raleigh, NC 27602
Telephone: (919) 828-7206

Bruce Fein
General Counsel
Federal Communications Commission
1919 M Street, N.W., Room 614
Washington, D.C. 20554
Telephone: (202) 632-7020

Ralph C. Ferrara
Debevoise & Plimpton
1777 F Street, N.W., Rm. S-700
Washington, D.C. 20006
Telephone: (202) 289-0100

Robert E. Freer, Jr.
Vice President & Washington Counsel
Kimberly-Clark Corporation
1000 Wilson Blvd., Suite 2200
Arlington, VA 22209
Telephone: (703) 276-92003

E. Gordon Gee
President
West Virginia University
Stewart Hall
Morgantown, WV 26506
Telephone: (304) 293-5531

Robert L. Gilliat
Assistant General Counsel
Department of Defense
The Pentagon - Room 3E999
Washington, D.C. 20301
Telephone: (202) 697-9341

Lawrence B. Glick
Solicitor
U.S. Commission on Civil Rights
1121 Vermont Avenue, N.W., Room 710
Washington, D.C. 20425
Telephone: (202) 254-3070

Louis B. Hays
Associate Commissioner
Social Security Administration
3833 North Fairfax Drive, Room 402
Arlington, VA 22203
Telephone: (703) 235-8333

Roger A. Hood
Assistant General Counsel
Federal Deposit Insurance Corporation
550 17th Street, N.W., Rm. 4006-A
Washington, D.C. 20429
Telephone: (202) 389-4171

Michael J. Horowitz
Counsel to the Director for
Policy Analysis and Law
Office of Management and Budget
Washington, D.C. 20503
Telephone: (202) 395-4852

S. Neil Hosenball
General Counsel
National Aeronautics and Space
Administration
Washington, D.C. 20546
Telephone: (202) 755-3876

Howard Jenkins, Jr.
Member
National Labor Relations Board
Washington, D.C. 20570
Telephone: (202) 254-9204

R. Tenney Johnson
General Counsel
Department of Energy - 6A245
1000 Independence Avenue, S.W.
Washington, D.C. 20585
Telephone: (202) 252-5281

Paul D. Kamenar
Director of Litigation
Washington Legal Foundation
1612 K Street, NW, Suite 502
Washington, DC 20006
Telephone: (202) 857-0240

John J. Knapp
General Counsel
Department of Housing and
Urban Development
Washington, D.C. 20410
Telephone: (202) 755-7244

Allie B. Latimer
General Counsel
General Services Administration
Washington, D.C. 20405
Telephone: (202) 566-1200

Jerris Leonard
Jerris Leonard & Associates
900 17th Street, N.W.
Suite 1020
Washington, D.C. 20006
Telephone: (202) 872-1095

Michel Levant
(Judge)
(Office of Administrative Law Judges)
(Federal Energy Regulatory Commission)
14404 Cantrell Road
Silver Spring, MD 20904
Telephone: (202) 357-9239

Bevis Longstreth
Commissioner
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549
Telephone: (202) 272-2400

K. E. Malmborg
Assistant Legal Advisor
Department of State
Washington, D.C. 20520
Telephone: (202) 632-2350

Henry G. Manne
Director
Law and Economics Center
Emory University
1305 Clifton
Atlanta, GA 30322
Telephone: (404) 329-5771

Jane A. Matheson
3811 Green Trails, South
Austin, TX 78737
Telephone: (512) 346-8763

Clarence V. McKee
Pepper & Corazzini
1776 K Street, N.W.
Suite 700
Washington, D.C. 20006
Telephone: (202) 466-4880

Joseph A. Morris
General Counsel
Office of Personnel Management
Washington, D.C. 20415
Telephone: (202) 632-4632

Alan B. Morrison
Director
Public Citizens Litigation Group
2000 P Street, N.W., Suite 700
Washington, D.C. 20036
Telephone: (202) 785-3704

Marvin H. Morse
Administrative Law Judge
Office of Hearings and Appeals
Small Business Administration
1441 L Street, N.W.
Washington, D.C. 20416
Telephone: (202) 653-7735

James S. Munn
Shulkin, Hutton & Bucknell
Pacific Building - 11th Floor
Seattle, WA 98104
Telephone: (206) 623-3515

J. E. Murdock III
Chief Counsel
Federal Aviation Administration
Washington, D.C. 20591
Telephone: (202) 426-3773

Daniel Oliver
General Counsel
Department of Education
Washington, D.C. 20202
Telephone: (202) 245-8941

Sallyanne Payton
Associate Professor
University of Michigan School of Law
Hutchins Hall
Ann Arbor, MI 48109
Telephone: (313) 763-0220

John L. Pressly
Associate Deputy General Counsel
Veterans Administration-02B
810 Vermont Avenue, N.W., Rm. 1034
Washington, D.C. 20420
Telephone: (202) 389-2115

William T. Quillen
Potter, Anderson & Corroon
350 Delaware Trust Building
P.O. Box 951
Wilmington, DE 19899
Telephone: (302) 658-6771

Bruce Rabb
Stroock, Stroock & Lavan
61 Broadway (18th Floor)
New York, NY 10006
Telephone: (212) 425 5200

Frank P. Reiche
Commissioner
Federal Election Commission
1325 K Street, N.W., 5th Flr.
Washington, D.C. 20463
Telephone: (202) 523-4104

Ronald E. Robertson
Musick, Peeler & Garrett
1200 18th Street, N.W., Suite 1175
Washington, D.C. 20036
Telephone: (202) 775-1427

Joseph H. Rodriguez
Public Advocate
Department of Public Advocate
Box CN850
25 Market Street
Trenton, NJ 08625
Telephone: (609) 292-1889

Jonathan C. Rose
Assistant Attorney General
Office of Legal Policy
Department of Justice
Washington, D.C. 20530
Telephone: (202) 633-4601

Victor G. Rosenblum
Professor
Northwestern University Law School
357 E. Chicago Avenue
Chicago, IL 60611
Telephone: (312) 649-8443

Jane R. Roth
Richards, Layton & Finger
#1 Rodney Square
P.O. Box 551
Wilmington, DE 19801
Telephone: (302) 658-6541

John L. Ryan
Executive Vice President
Dean Brothers Pumps, Inc.
P.O. Box 68172
Indianapolis, IN 46268
Telephone: (317) 293-2930 (ext. 234)

Phyllis Schlafly
Attorney-at-law
68 Fairmount Addition
Alton, IL 62002
Telephone: (618) 462-5415

Jerome Sebastian
Deputy Assistant Chief Counsel
(Technical)
Internal Revenue Service
1111 Constitution Ave., N.W., Rm 3024
Washington, D.C. 20224
Telephone: (202) 566-9050

Edith Barksdale Sloan
Vice Chairman
Consumer Product Safety Commission
1111 Eighteenth Street, N.W.
Washington, D.C. 20207
Telephone: (202) 634-7793

Peter L. Strauss
Professor
Columbia University Law School
New York, NY 10027
Telephone: (212) 280-2370

Thomas M. Susman
Ropes & Gray
1001 22nd Street, N.W.
Suite 700
Washington, D.C. 20037
Telephone: (202) 429-1600

Frank S. Swain
Chief Counsel for Advocacy
Small Business Administration
1441 L Street, N.W., Rm. 1012
Washington, D.C. 20416
Telephone: (202) 653-6533

Reese H. Taylor, Jr.
Chairman
Interstate Commerce Commission
Washington, D.C. 20423
Telephone: (202) 275-1912

Moody R. Tidwell III
Deputy Solicitor
Office of the Solicitor
U.S. Department of the Interior
Washington, D.C. 20240
Telephone: (202) 343-4813

Edgar H. Twine
Manager of Federal Government Relations
Atlantic Richfield Company
1333 New Hampshire Avenue, N.W.
Washington, D.C. 20036
Telephone: (202) 457-6242

Sherman E. Unger
General Counsel
Department of Commerce
Washington, D.C. 20230
Telephone: (202) 377-4772

Thomas P. Vartanian
General Counsel
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D.C. 20552
Telephone: (202) 377-6404

Paul R. Verkuil
Dean
Tulane Law School
New Orleans, LA 70118
Telephone: (504) 865-5938

Margery Waxman
Deputy General Counsel
Department of the Treasury
Washington, D.C. 20220
Telephone: (202) 566-2977

Harris Weinstein
Covington & Burling
1201 Pennsylvania Avenue, N.W.
P.O. Box 7566, Suite 1111
Washington, D.C. 20044
Telephone: (202) 662-5302

Richard E. Wiley
Kirkland & Ellis
1776 K Street, N.W., Suite 1100
Washington, D.C. 20006
Telephone: (202) 857-5010

Seth D. Zinman
Associate Solicitor
Division of Legislation and Legal Counsel
U.S. Department of Labor, Room N-2428
200 Constitution Avenue, N.W.
Washington, D.C. 20210
Telephone: (202) 523-8201

LIAISON REPRESENTATIVES

J.C. Argetsinger
General Counsel
ACTION
Room M-607
Washington, D.C. 20525
Telephone: (202) 254-3116

Stephen Breyer
Judge
United States Court of Appeals
1606 U.S. Post Office & Courthouse Bldg.
Boston, MA 02109
Telephone: (617) 223-6675

John E. Byrne
Director of the Federal Register
National Archives and Records Service
Washington, D.C. 20408
Telephone: (202) 523-5240

Howard T. Markey
Chief Judge
United States Court of Appeals for the Federal Circuit
The National Court Building
717 Madison Place, N.W.
Washington, D.C. 20439
Telephone: (202) 633-6562

Carl McGowan
Senior Judge
United States Court of Appeals
Washington, D.C. 20001
Telephone: (202) 535-3344

Alice L. O'Donnell
Director of Inter-Judicial Affairs
Federal Judicial Center
1520 H Street, N.W.
Washington, D.C. 20005
Telephone: (202) 633-6347

Rosemary M. Collyer
Chairman
Federal Mine Safety Commission
1730 K Street, N.W., 7th Floor
Washington, D.C. 20006
Telephone: (202) 653-5644

Wyatt B. Durrette, Jr.
(Member, Board of Directors
Advisory Commission on
Intergovernmental Relations)
Maloney and Chess
3900 University Drive
Fairfax, VA 22030
Telephone: (703) 691-1700

J.F. Greene
Judge
(ABA Conference of Administrative
Law Judges)
530 N Street, S.W.
Washington, D.C. 20024
Telephone: (202) 382-4860

Alex Kozinski
Chief Judge
United States Claims Court
The National Court Building
717 Madison Place, N.W.
Washington, D.C. 20005
Telephone: (202) 633-7267

Joseph F. Spaniol, Jr.
Deputy Director
Administrative Office of the
United States Courts
Washington, D.C. 20544
Telephone: (202) 633-6021

Stanley Sporkin
General Counsel
Central Intelligence Agency
Washington, D.C. 20505
Telephone: (703) 351-6111

Janet D. Steiger
Chairman
Postal Rate Commission
2000 L Street, N.W., Suite 500
Washington, D.C. 20268
Telephone: (202) 254-3846

Henry Rose
General Counsel
Pension Benefit Guaranty Corporation
2020 K Street, N.W., Rm. 7228
Washington, D.C. 20006
Telephone: (202) 254-4864

Richard B. Smith
(ABA Coordinating Group
on Regulatory Reform)
Davis, Polk & Wardwell
1 Chase Manhattan Plaza
New York, NY 10005
Telephone: (212) 530-4000

Milton J. Socolar
General Counsel
General Accounting Office
Washington, D.C. 20548
Telephone: (202) 275-5432

Jerome K. Soffer
Judge
(The Federal Administrative
Law Judges Conference)
Securities & Exchange Commission
450 Fifth Street, N.W., Room 7191
Washington, D.C. 20549
Telephone: (202) 272-7636

Michael H. Stein
General Counsel
U.S. International Trade Commission
701 E Street, N.W., Room 214
Washington, D.C. 20436
Telephone: (202) 523-0350

Michael Uhlmann
Special Assistant to the President
and Assistant Director for Legal Policy
The White House
Washington, D.C. 20500
Telephone: (202) 456-2372

Henry N. Williams
General Counsel
Selective Service System
1023 31st Street, N.W., 5th Floor
Washington, D.C. 20435
Telephone: (202) 724-1167

Special Counsels

Fred F. Fielding
Counsel to the President
The White House
Washington, D.C. 20500
Telephone: (202) 456-2632

C. Boyden Gray
Counsel to the Vice President
Old Executive Office Building, Room 280
Washington, D.C. 20500
Telephone: (202) 456-7034

SENIOR CONFERENCE FELLOWS

William H. Allen
Covington & Burling
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
Telephone: (202) 662-5420

Robert A. Anthony
2011 Lorraine Avenue
McLean, VA 22101
Telephone: (202) 429-9802

Clark Byse
Professor
Harvard Law School
Cambridge, MA 02138
Telephone: (617) 495-3168

Roger C. Cramton
Dean
Cornell Law School
Ithaca, NY 14853
Telephone: (607) 256-3379

Kenneth Culp Davis
Professor
University of San Diego School of Law
San Diego, CA 92110
Telephone: (714) 293-4544

Warner Gardner
Shea & Gardner
1800 Massachusetts Avenue, N.W.
Suite 800
Washington, D.C. 20036
Telephone: (202) 828-2000

Cornelius B. Kennedy
4801 Massachusetts Avenue, N.W.
Suite 400
Washington, D.C. 20016
Telephone: (202) 362-6315

Philip A. Loomis, Jr.
7108 Beechwood Drive
Chevy Chase, MD 20815
Telephone: (301) 656-5565

Anthony L. Mondello
5608 Namakagan Road
Bethesda, MD 20816
Telephone: (202) 383-3969

Owen Olpin
O'Melveny & Myers
400 S Hope Street
Los Angeles, CA 90071-2899
Telephone: (213) 669-6000

Max D. Paglin
Weil, Gotshal & Manges
1101 14th Street, N.W., 5th Floor
Washington, D.C. 20005
Telephone: (202) 682-7000

Reuben B. Robertson III
Hydeman, Mason, Burzio & Lloyd
1220 19th Street, N.W., Suite 700
Washington, D.C. 20036
Telephone: (202) 775-0725

Antonin Scalia
Judge
United States Court of Appeals
3rd & Constitution Ave., N.W.
Washington, DC 20001
Telephone: (202) 535-3356

James E. Wesner
Ginsburg, Feldman, Weil & Bress
1700 Pennsylvania Avenue, N.W.
Washington, D.C. 20006
Telephone: (202) 637-9080

Jerre S. Williams
Judge
United States Court of Appeals
1620 American Bank Tower
221 W. 6th Street
Austin, TX 78701
Telephone: (512) 482-5794

Frank M. Wozencraft
Baker & Botts
3000 One Shell Plaza
Houston, TX 77002
Telephone: (713) 229-1328

INCREASING NONVOTING MEMBERSHIPS

Mr. SMITH. I must say we've increased the 91 members somewhat by creating several categories of nonvoting membersship which we're allowed to do under our statute. So we are actually getting more than 50 private people who are helping us.

Senator ABDNOR. Well, a lot of problems come because of the regulatory burden. You've been looking at this. Will you tell us a little about the status of your study and what it is showing?

Mr. SMITH. Well, I think one of the most serious problems the economy faces, Senator, is of over-regulation and the stifling of the ability of the free enterprise system to be productive.

Senator ABDNOR. A lot of people would agree with you.

Mr. SMITH. The Conference's mandate is to deal with procedural matters. We can't get into substance. It isn't our role to decide whether we should regulate the quality of the air or regulate the safety of products. But what our role is is to determine, once a policy decision is made, how to do that most fairly and most efficiently.

And in doing that, we have, I think, put the majority of our focus in ways of deregulating and improving the regulatory system. Let me give four or five ways that the Conference is operating in that area.

First, of course, I serve as a special consultant to the Vice President's Regulatory Relief Task Force, and I hope the Conference has been helpful in helping them achieve a more efficient process.

Second, our Council of Independent Regulatory Agencies which meets monthly, has put out a report on regulatory relief, which came out in November. We have copies of it.

Senator ABDNOR. We have a copy of it?

Mr. SMITH. Yes, sir.

Senator ABDNOR. Well, then we'll make that a part of the record as well. It may help us in some other problems we have.

[The information follows:]

STATEMENT OF POLICY

of the

COUNCIL OF INDEPENDENT REGULATORY AGENCIES

The Council of Independent Regulatory Agencies (CIRA) was created by its members to further the efficiency, effectiveness and responsiveness of the major independent regulatory agencies in doing the public's business. CIRA is an informal organization sponsored by the Office of the Chairman of the Administrative Conference of the United States and chaired by Administrative Conference Chairman Loren A. Smith. It is composed of the chairmen of the 14 major independent regulatory boards and commissions. It meets monthly with the chairmen, one staff aide from each agency, and such individuals who may from time to time present reports, share ideas or confer with the group.

The meetings of CIRA are designed to allow the chairmen to share common problems and various successful solutions achieved at one agency or another. They are also designed to better enable the chairmen to fulfill their responsibilities by cooperating in the solution of governmental and regulatory problems that cut across agency lines. The meetings are not public as they are designed to provide an opportunity for the candid exploration of mutual problems rather than to produce official agency pronouncements.

The group is in the truest sense a forum for exchanging ideas. At a time when fundamental questions about the nature and quality of our regulatory system are being raised, CIRA is an innovative and efficient way for providing the various chairmen a better perspective on the problems and challenges each of their agencies face, both individually and as parts of the Federal government.

COUNCIL MEMBERS

Honorable Loren A. Smith
Chairman, Administrative
Conference of the United States

Honorable Paul A. Volcker
Chairman, Board of Governors of
the Federal Reserve System

Honorable Dan McKinnon
Chairman, Civil Aeronautics Board

Honorable Philip McBride Johnson
Chairman, Commodity Futures
Trading Commission

Honorable Nancy Harvey Steorts
Chairman, Consumer Product
Safety Commission

Honorable Clarence Thomas
Chairman, Equal Employment
Opportunity Commission

Honorable Mark S. Fowler
Chairman, Federal Communications
Commission

Honorable Richard T. Pratt
Chairman, Federal Home
Loan Bank Board

Honorable Alan Green, Jr.
Chairman, Federal
Maritime Commission

Honorable C.M. Butler III
Chairman, Federal Energy
Regulatory Commission

Honorable James C. Miller III
Chairman, Federal Trade
Commission

Honorable Reese H. Taylor, Jr.
Chairman, Interstate
Commerce Commission

Honorable John R. Van de Water
Chairman, National Labor
Relations Board

Honorable Nunzio J. Palladino, Jr.
Chairman, Nuclear
Regulatory Commission

Honorable John Shad
Chairman, Securities and
Exchange Commission

Foreword

The commitment to regulatory relief of the agency Chairmen publishing this report is not just an infatuation with a fashionable issue. It springs from a deep belief on the part of CIRA's members, and the President, that our free economy and our free society must always view regulation as the exception, and the forces of free consumer choice and competitive markets as the norm. This presumption in favor of personal, and its corollary economic, liberty must be overcome in justifying all governmental regulatory policies. Above and beyond the initial justification, such government regulations as are necessary should be as efficient, clear, simple and rational as possible. Every unnecessary, vague, overly complex or poorly thought-out regulation imposes a tax on this Nation's citizens, just as surely as any levied by the Congress. With this philosophy in mind, we are trying to do what we believe the laws require, the spirit of the Constitution mandates, and the taxpayers of this country demand: to reduce the burdens of regulation on our economy, without compromising public safety and other essential interests.

The agency decisions described in this report are not merely those of the agency Chairmen, of course, but represent the views of a majority of the members of each independent regulatory agency: the CIRA members have asked me to acknowledge the assistance and encouragement they have received in their efforts from their respected fellow commissioners. Of equal importance is the enthusiastic support and guidance -- both in the form of new legislation and through oversight hearings -- that they have received from the distinquished Senators and Congressmen who head the House and Senate Committees and Subcommittees that oversee their activities. That support, like the votes of fellow commissioners and the leadership of President Reagan's Administration, is an absolutely essential ingredient to the successes here reported, and to those the agencies intend to achieve in the future.

The first (and perhaps last) question about regulatory relief for many Americans may well be, "Why bother?" The most important answer is that deregulation -- and less intrusive rules when a regulatory system cannot be eliminated entirely -- increases efficiency and thus permits lower prices for consumers. Deregulating the airlines, for example, has resulted in fares in most markets that are substantially lower, in real dollars, than were the government-mandated fares under the old system. (Basically, the rates in those days had the effect of protecting the least efficient company in a market.) The same benefits of free entry and relative rate freedom are now having the same effects in the trucking and bus industries. Although the work of reducing regulation in the banking industry is not yet complete, we have all seen the benefits of increased competition in that industry in the form of higher rates for smaller savings accounts. And while the new "shelf registration" procedures at the Securities and Exchange Commission and the new "blanket certification" procedures at the Federal Energy Regulatory Commission may look as though they simply benefit the regulated businesses, in fact the lower industry costs that these new regulations permit will be passed through to customers -- again resulting in lower consumer prices.

We thus are proud to make this report on the specifics of the substantial regulatory relief actions that our agencies have taken. These efforts will permit more efficient performance by the firms we regulate, will therefore result in lower consumer prices and, as well, will permit reduced expenditures by our agencies, yielding substantial savings to the taxpayers.

Loren A. Smith

Chairman, Council of Independent
Regulatory Agencies
(Chairman, Administrative
Conference of the United States)

I. INTRODUCTION AND SUMMARY

The decade of the 1970's witnessed a virtual explosion in federal regulatory activity. Between 1970 and 1979 the number of pages in the Code of Federal Regulations nearly doubled, the number of pages published each year in the Federal Register tripled, and the expenditures of the major regulatory agencies more than quadrupled. No one knows the exact magnitude of the burden of the massive body of regulations that resulted, but by the end of the decade, estimates of the cost to the economy imposed by these regulations ranged as high as over $100 billion per year.

The Reagan Administration and the independent regulatory agencies recognize the urgent need to reduce these regulatory costs and burdens. While the benefits of regulation--cleaner air and water, safer products, stable markets--continue to be valued, it is now recognized that the costs have often been excessive in relation to the benefits actually achieved.

The fourteen regulatory agency Chairmen who are members of the Council of Independent Regulatory Agencies (CIRA) are playing an important part in these efforts to provide relief from excessive regulatory and paperwork burdens by providing committed leadership to the multi-member agencies they head. This report is an effort to summarize the progress made to date and the prospects for further reform.

The fourteen CIRA regulatory agencies cover the entire spectrum of federal regulatory activity. All are engaged in a varying mix of economic regulation, in the regulation of financial markets, or in regulation designed to further goals such as more truthful advertising, safer products, and more equitable employment opportunities for all citizens. The mission of each agency is listed in Table 1.

TABLE ONE

Listing of CIRA Agencies' Missions

Agency		Regulatory Mission
Civil Aeronautics Board	-	the airlines
Federal Communications Commission	-	radio, television and telephone communications
Federal Energy Regulatory Commission	-	distribution and sale of oil, natural gas and electric power
Federal Maritime Commission	-	ocean shipping
Interstate Commerce Commission	-	buses, trucks, rails and inland waterways
Commodity Futures Trading Commission	-	the trading of grain and other futures
Federal Home Loan Bank Board	-	savings and loan associations
Federal Reserve Board	-	banks and the money supply
Securities and Exchange Commission	-	the securities markets
Consumer Product Safety Commission	-	all consumer products
Equal Employment Opportunity Commission	-	fair employment practices
Federal Trade Commission	-	ensuring free markets and non-deceptive practices
National Labor Relations Board	-	fair labor bargaining
Nuclear Regulatory Commission	-	nuclear power and exports

Regulatory relief can take different forms for different areas of regulatory activity. As a result, the regulatory relief activities of the CIRA agencies are as diverse as their missions.

In areas of economic and financial regulation, the appropriate avenue for regulatory relief is frequently to deregulate--to remove regulatory constraints in favor of reliance on the greater efficiency and lower consumer prices that free markets produce. The past ten years have seen a growing consensus that traditional economic regulation has done more to aid anti-competitive cartels than control them, with the result being higher consumer prices and the stifling of innovation. Initial steps toward introducing competition have now been taken in many important areas, including airlines, securities brokerage, trucking, buses, banking and railroads. Congress has passed statutes to provide for a less burdensome regulatory role in these industries, and a major activity of the CIRA agencies engaged in economic and financial regulation has been the implementation of these statutes. Introducing the maximum amount of competition in these markets, whether by administrative reforms or by working with Congress to pass further deregulatory statutes, will continue to be a major activity for the foreseeable future.

A second major avenue of reform is the increased use of benefit/cost analysis to evaluate regulatory proposals. Virtually all of the fourteen agencies have taken important steps to increase their use of benefit/cost analysis. For example, the NRC has conducted a review of its standards for Value-Impact Analyses (its name for its economic analyses of regulations). The FTC has provided for economic input at the earliest stages of its case development process and proposed legislation to allow it to concentrate its resources where the potential for lowering prices and alleviating consumer injury is greatest.

All of the CIRA agencies have taken steps to eliminate unnecessary, nitpicking federal intrusions into private sector decisionmaking. The Federal Communications Commission and the Interstate Commerce Commission for example, have reduced unnecessary reporting requirements, the Commodity Futures Trading Commission and the Securities and Exchange Commission have clarified their responsibilities to avoid unnecessary duplication, and the Civil Aeronautics Board, the Federal Energy Regulatory Commission, and the Federal Maritime Commission all have used their exemption authority to remove unnecessary burdens, particularly where they apply to small business. Section II of this report contains dozens of examples of efforts to reduce or eliminate regulatory and paperwork burdens.

The benefits of the regulatory relief initiatives taken to date are impossible to quantify with any precision. And it is even more difficult to quantify the benefits of a more efficient FTC or of FCC moves to foster innovation in telecommunications markets: the benefits of these initiatives are to be found in resources that are not wasted or in innovations that are not impeded. But scholars have placed the benefits of airline and trucking deregulation alone in the billions of dollars, and it is obvious that the efforts of all the CIRA agencies to date have an aggregate value far exceeding that of airline and trucking deregulation alone.

One measure of public benefit that is available is the reduced paperwork burden placed on the private sector by CIRA agencies. As shown in Table Two, CIRA agencies have reduced their combined burden by over 25 percent -- amounting to more than 30 million hours annually -- in just the last year. If these hours are valued only at the minimum wage, this represents a $100 million annual saving to the American public. It should also be noted that the 26 percent reduction far exceeds the 16.7 percent reduction achieved by the federal government on average.

Regulatory relief also means the ability to do more with fewer of the taxpayers' dollars. By reducing the resources devoted to enforcing obsolete or unnecessary regulations, the CIRA agencies have been able to do more than their part in the Administration's efforts to balance the federal budget. Table Three shows levels of employment for the fourteen CIRA agencies: employment by the CIRA agencies has fallen nearly 10 percent in the past three years. These statistics are a sharp contrast with the rapid growth of regulatory agencies during the preceding decade, indicating a true reversal in the path of federal regulatory activity. Spending for the period 1980-1983 has increased by less than four percent annually, indicating a reduction in real spending once inflation is accounted for.

A great deal remains to be done. In addition to the many administrative changes underway, the CIRA agencies are working closely with Congress to enact further important regulatory relief legislation. Among the bills now under consideration are proposals to remove unnecessary restrictions on free speech by broadcasters, to eliminate regulation of oil pipelines, and to further simplify federal regulation of financial markets. International regulation is increasingly recognized as an important area in need of reform, and other CIRA agencies are at work in areas such as airlines and shipping, where international cartels help to keep consumer prices higher than they would be without regulation.

In other areas the challenge is to achieve the best tradeoff between regulatory benefits and lower consumer prices. Increased use and refinement of benefit/cost analysis can be an important means of improving regulatory decisions in these areas. Innovative regulatory techniques, such as industry self-regulation and increased use of free market principles to supplement regulation, can also play an important role.

The CIRA agencies are devoted to providing regulatory relief. As this report shows, a good start has been made already. As this report also indicates, the CIRA agencies are continuing to work with the Administration, their relevant Congressional Committees, and the interested public, to continue to progress toward greater regulatory efficiency.

TABLE TWO
Reductions in Paperwork Burden Hours
by CIRA Agencies

Agency	Burden Hours (millions) FY 1981	FY 1982	Reduction from 1981 a/ Hours	Percent
Civil Aeronautics Board	0.6	0.5	0.1	18
Commodity Futures Trading Commission	2.6	2.3	0.3	9
Consumer Product Safety Commission	0.6	0.3 b/	0.3	50
Equal Employment Opportunity Commisison	3.8	3.3	0.5	12
Federal Communications Commission	27.2	9.8	17.4	64
Federal Energy Regulatory Commission	8.9	7.9	1.0	11
Federal Home Loan Bank Board	9.7	8.0	1.7	18
Federal Maritime Commission c/	--	--	--	--
Federal Reserve Board	6.9	5.8	1.1	15
Federal Trade Commission	0.7	0.6	0.1	15
Interstate Commerce Commission	1.8	1.5	0.3	17
National Labor Relations Board c/	--	--	--	--
Nuclear Regulatory Commission	19.3	13.1	6.2	32
Securities and Exchange Commission	46.8	42.0	4.8	10
Totals	128.9	95.1	33.8	26

Source: OMB, Information Collection Budget, Fiscal Year 1982.
a/ Calculated from rounded numbers.
b/ The CPSC figures are the burden request figures for FY 82 and FY 83. FY 81 and FY 82 figures are not comparable because of changes in the burden computation methodology.
c/ Exempt from information collection budget due to insignificance of paperwork burden.

TABLE THREE
Employment at CIRA Agencies, 1980-1983

Agency	Full Time Permanent Positions 1980	1981	1982	1983	Percent Change 1980-1983
Civil Aeronautics Board	743	650	505	427	-42.5
Commodity Futures Trading Commission	550	550	550	550	0.0
Consumer Product Safety Commission	850	812	631	577	-32.1
Equal Employment Opportunity Commission	3777	3416	3327	3278	-13.2
Federal Communications Commission	2153	2004	1862	1602	-25.6
Federal Energy Regulatory Commission	1605	1742	1648	1789	11.5
Federal Home Loan Bank Board	1480	1488	1503	1503	1.6
Federal Maritime Commission	361	306	306	290	-19.7
Federal Reserve Board	1496	1570	1536	1554	3.9
Federal Trade Commission	1665	1587	1380	1235	-25.8
Interstate Commerce Commission	2024	1836	1653	1450	-28.4
National Labor Relations Board	3157	3213	3213	3213	1.8
Nuclear Regulatory Commission	3041	3277	3325	3303	8.6
Securities and Exchange Commission	2102	2023	2021	1896	-9.8
Totals	25004	24474	23459	22667	-9.3

Source: Budget of the United States, fiscal years 1982 and 1983.

II. AGENCY INITIATIVES

CIVIL AERONAUTICS BOARD (CAB)

The CAB has been in every sense a leader in the deregulation movement. Its consideration of significant regulatory relief options dates to the Domestic Passenger

Fare Investigation conducted in the mid-1970's; under the Airline Deregulation Act the board will be the first major regulatory agency to be eliminated in recent years.

It will cease to exist on January 1, 1985.

The Board's most recent contributions to regulatory relief are directed at facilitating the transition to competition and removing remaining unnecessary burdens. In particular, the Board has recently taken several important steps:

* Reductions in Reporting Burdens;
* Incentives for Efficiency in International Markets;
* Modification of Denied Boarding Compensation Rules;
* Allowing Incorporation by Reference After Elimination of Tariffs, and
* Review of Domestic Baggage Liability Rules.

Reductions in Reporting Burdens: The introduction of competition has lessened or eliminated the need for information about a variety of airlines activities. Such information was used in the past to facilitate Board decisions on regulatory matters that are now left for determination in the competitive marketplace.

The Board is thus making a major effort to determine which information is no longer required and remove unnecessary burdens.

On July 8, 1982 it took a major step in this direction by adopting Economic Regulation 1297, which effects a 49 percent reduction in the number of annual reporting hours incurred by certificated carriers in complying with the Board's financial and statistical reporting requirements.

Under a September 1981 staff paper, which was subsequently revised to reflect extensive public suggestions, the Board will continue to look at these reporting requirements and expects to eliminate many more.

It has specifically proposed to eliminate a requirement that carriers filing for certificates of public convenience and necessity serve complete copies of the application on all interested parties. Instead, only one-page summaries of the lengthy documents would be served on all parties, thus eliminating a substantial burden on carriers acquiring new authority.

Incentives for Efficiency in International Markets: The Board works closely with the Departments of State and Transportation to negotiate liberal bilateral treaties with other nations which allow for unlimited entry in air travel between the two countries. Unfortunately, the United States has not been able to negotiate that type of agreement for all markets served by United States airlines. As a result, the Board must select one or two U.S. airlines to provide service in each of these markets.

In these limited-entry markets, the Board has begun to use innovative measures to simulate the forces of competition.

In particular, the Board has granted experimental temporary certificates in these markets, certificates which expire at the end of a set term.

This puts the carrier on notice that it will have to demonstrate, at the end of this term, that its authority should be renewed. Also, the temporary authority can be revoked by the Board at any time based on carrier performance. This creates a regulatory incentive for carriers to be responsive to consumer demand during the terms of their authority.

Further, it encourages other carriers to consider whether they can provide superior service and, if so, to apply for authority at the end of each term.

This threat of new entry simulates the competitive forces that normally work to maximize consumer welfare.

Modification of Denied Boarding Compensation Rules: As part of the Board's review of its main public-protective rules prior to sunset, it considered eliminating or modifying the rule providing compensation to passengers "bumped" because of oversales of a flight. The Board considered comments from all parts of the affected industries and the public.

There was a substantial consensus among the commenters that the rule should be retained in some form, but the Board made several changes to simplify and clarify it.

Airlines will no longer have to pay compensation to bumped passengers if they can get them to their destination within an hour of the time they were supposed to arrive.

U.S. carriers will no longer have to conform to U.S. rules on inbound foreign flights, so that they can compete on equal terms with their foreign counterparts.

The measure of compensation will be the fare, for even the lowest-fare flights, rather than having to be at least $37.50. This will remove an extra burden on low-fare carriers.

Allowing Incorporation by Reference After Elimination of Tariffs: Tariffs for domestic travel will be eliminated on January 1, 1983. This created a difficult situation for the airlines.

They were unsure about whether, without Federal control, the laws of the various States would force them to give out all the rules concerning their flights -- the "contracts of carriage" that were previously contained in the tariffs -- to each passenger. The travel agency system is heavily dependent on uniform short-form ticket stock that can be used for ever carrier.

To avoid the cost of bulky and varying contracts and years of court litigation, while giving adequate notice to the public of important terms, the Board issued a rule to allow airlines to continue to incorporate terms by reference on short-form tickets.

The rule provides notice of important terms on the tickets, and provides for a system whereby passengers who want them can get copies of the full contracts. Thus, this brief rule allows for the smooth elimination of the entire domestic tariff system, the retention of short-form ticket stock by agents and carrier ticket offices, and giving notice of essential terms to passengers.

Review of Domestic Baggage Liability Rules: In February 1982 the Board proposed three options for simplifying baggage liability rules: eliminate the rules altogether; eliminate all rules except the minimum liability limitation, or codify the significant aspects of the current rules. The Board subsequently adopted a modified version of option two in its final rule, which sets a $1,000 liability limit and requires carriers to inform passengers of any limitation on liability (such as for fragile goods) and provide notice if excess valuation insurance can be purchased. The final rule eliminates detailed regulation of what items are considered fragile or perishable, what exculpatory clauses are permitted, and passenger claims practices.

COMMODITY FUTURES TRADING COMMISSION (CFTC)

The primary regulatory relief activities undertaken by the CFTC are in the nature of facilitating innovation and efficiency in commodity futures markets--i.e., of providing an efficient set of property rights within which market mechanisms can work. The Commission's four major regulatory relief actions fall loosely within this description:

- Opening New Markets for Exchange Trading;
- Resolving Jurisdictional Tensions;
- Promoting Efficient Industry Self-Regulation, and
- Trading Fees.

Opening New Markets for Exchange Trading: The Commission is required by law to approve all new futures contracts before they can be traded on the floors of United States exchanges. For years, delays and bottlenecks in the process have allowed innovative contract proposals to languish. Solving this problem has been a key priority, and the results of improved efforts are already beginning to show. Since June 1981 the Commission has approved 29 new contracts, including many new innovative efforts to allow traders to hedge economic risks. Of the 29 contracts, five have involved futures contracts on stock indices, three on Eurodollars; others have involved petroleum, government securities and domestic certificates of deposit, all areas representing new markets which simply did not exist a short time ago.

The Commission has also ended its 1978 moratorium on options trading by initiating a three-year pilot program for trading in commodity options. Under the program, each exchange could trade one option on a commodity futures contract already traded on that exchange. Public response to the program has been heavy, with eight exchanges having applied to participate. Actual trading could begin this fall.

It is also important to note that the speed-up in approval of innovative contracts has not been accomplished at the expense of quality control: each of the 29 new contracts approved, for instance, received a full and thorough economic analysis to assure that the public interest is being protected.

Resolving Jurisdictional Tensions: Because commodities on which futures are traded are sometimes regulated by other agencies, cooperation is necessary to avoid harmful effects on developing markets. The most important step the Commission has taken in this regard is its December 7, 1981 accord with the Securities and Exchange Commission clarifying their respective authorities with respect to financial futures and options, and thus settling the longstanding uncertainty engendered by the jurisdictional issue.* Other important steps taken to improve cooperation with other agencies include reorganization of the Office of Government Affairs to allow it to assume chief responsibility for coordinating intragovernmental matters, and the adoption of formal procedures for the sharing of market data with the Department of the Treasury and the Federal Reserve Board.

Promoting Efficient Industry Self-Regulation: A key theme of regulatory relief at the Commission is increased reliance on industry to govern its own affairs. Financial exchanges have traditionally functioned as self-regulatory bodies, subject to government oversight to assure that actions are in the public interest and are not guided by incentives to limit entry and facilitate cartel activities. In September 1981, CFTC took a major step in promoting self-regulauon in the commodity industry by registering the National Futures Association as a futures association responsible for policing industry sales practices, membership standards, and other policy areas, subject to strict Commission oversight. Four exchanges have already joined the association, which expects to begin operation this fall.

Trading Fees: In keeping with the Administration's general philosophy that groups that can be identified as benefiting from particular government programs should bear their fair share of the costs of those programs, the Commission has proposed a small fee under which commodity exchanges would pay the Treasury six or 12 cents for each transaction. (The lower fee would apply to traders already financing industry self-policing activities, the higher to all others.) Depending on market volume, the fee would be sufficient to cover most or all of the Commission's $20 million annual budget, with an equivalent saving to American taxpayers. The fee proposal is now pending before Congress as part of the Commission's reauthorization legislation.

CONSUMER PRODUCT SAFETY COMMISSION (CPSC)

The keystone of the CPSC's regulatory relief program is to reduce the burden of existing regulations without adversely affecting product safety. The agency not only strives to avoid needless confrontation with industry but in fact has enlisted the support of industry in protecting the public. In addition to performing regulatory analyses of all proposed rules as mandated by statute, the Commission has taken regulatory relief initiatives in four major areas:

* Management Efficiencies;
* Revision of Existing Regulations;
* Voluntary Standards Development, and
* Reduction of Paperwork Burdens.

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*/ Legislation to ratify the accord is pending before Congress.

Management Efficiencies: Certain management changes in the Commission over the last year have resulted not only in savings to the agency but also in a reduction of regulatory burdens on industry. The number of regional officies has been reduced from thirteen (13) to five (5); the field directorate has been eliminated; and the communications directorate has been eliminated and its functions taken over by strengthened offices of public affairs and outreach coordination.

These changes have enabled the Commission to enlist industry's help rather than to impose regulatory burdens. For example, last December, in cooperation with the United States Congress and with help from the Toy Manufacturers of America, the Consumer Product Safety Commission launched a major national program focusing on safety in a new way. The emphasis of the program was put on "Buying the right toy for the right child at the right age." CPSC took a positive, constructive approach. Industry volunteered. Therefore no regulatory burden was imposed, and the program was overwhelmingly successful.

Management redirection also helped to save lives and yet reduce regulatory burdens in the area of poison prevention. As you may know, CPSC has the responsibility for the child resistant closures. Since 1973, 315,000 poisonings have been prevented, 320 lives have been saved, and $800,000 in social costs have been saved.

This year the Commission's participation in "National Poison Prevention Week" was increased. For the first time, the President of the United States launched the event with a ceremony in the White House. Over 50 major corporations and business groups participated across the nation.

With no increased regulatory burden and at small cost to the Commission, lives were saved. There are other programs that could be highlighted. The Commission has reduced regulatory burdens by fostering cooperative industry/government activities.

Revision of Existing Regulations: The Commission has revised or revoked a number of its rules in order to reduce compliance burdens. For example, the Commission amended its ban on unstable refuse bins to exempt certain straight-sided bins that did not present an unreasonable risk of injury. Exemption from the ban meant that a segment of the industry did not have to test and possibly retrofit existing bins. Other existing rules that the Commission has proposed to revise include its standard for testing of guaranteed clothing to allow firms subject to the standard to devise their own reasonable testing programs and its flammability standard for mattresses to eliminate some of the production testing requirements. The Commission has also proposed amendments to its flammability standards for Clothing Textiles and Children's Sleepwear that would allow manufacturers and importers who are required to use specific testing procedures under the standards to use alternative testing procedures. The proposed changes to the flammibility standards will allow the regulated industry to eliminate unnecessary testing and recordkeeping burdens, thus decreasing the cost of manufacturing those products, without diminishing the level of consumer protection.

Additionally, in June of this year, the Commission partially revoked its safety standard for architectural glazing materials to eliminate tests for plastic glazing materials. The Commission took this action because the tests in question are not necessary to ensure the safety of plastic glazing materials.

The Commission is also concerned about the impact of its regulations on small businesses and is taking action to ensure that the least regulatory burden is imposed consistent with the public health and safety. For example, a standard governing omnidirectional CB antennas which was recently issued by the Commission contains provisions for granting a delay in the effective date for small manufacturers. This will allow these small businessmen to comply with the standard while minimizing the economic impact on their businesses.

Voluntary Standards Development: A major component of the Commission's regulatory relief program is the promotion of industry self-regulation through the development of responsible voluntary standards. The Commission is currently involved in 39 voluntary standards projects. These projects range from working with industry and voluntary organizations to monitor and upgrade existing standards to actively participating in the formulation and implementation of new standards. Some of the Commission's current voluntary standards efforts include standards to address strangulation hazards associated with toy chests, hazards presented by gas water heaters and the flammability of upholstered furniture. The Commission plans to continue to actively promote voluntary standards efforts in the upcoming fiscal year.

Reduction of Paperwork Burdens: Many of the Commission's regulatory relief initiatives have had positive effects in the paperwork area as well. The Commission paperwork budget request for fiscal year 1983 is approximately 37 percent below its 1982 request. Additionally, adoption of the proposed changes could lead to even greater paperwork reductions in the upcoming year. For example, the proposed revisons in the mattress flammability standard mentioned above may result in eliminating about half of the burden now imposed by that standard on mattress manufacturers. The clothing test standard revisions will also result in significantly reduced paperwork requirements.

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION (EEOC)

The Equal Employment Opportunity Commission has centered its regulatory relief activities on reducing recordkeeping requirements; indeed, such requirements are the major source of regulatory burdens imposed by the Commission, since virtually all of its regulations take the form of interpretive guidelines that do not have the force of law and hence impose few, if any, burdens. The major regulatory relief initiatives underway at the Commission are:

- Reduction of Filing Requirements;
- Review of Uniform Employee Selection Guidelines;
- Review of Sexual Harassment Guidelines;
- Reduction of Duplication through Coordination, and
- Reduction of Duplication through Certification of State and Local Fair Employment Agencies.

Reduction of Filing Requirements: In order to reduce reporting burdens, the Commission waived the filing of its EEO-5 Survey Report, Elementary-Secondary Staff Information Report, for calendar year 1981. The Commission has also proposed to permanently reduce the reporting requirement from once every year to once every two years. The EEO-5 survey would only be filed on even years, coinciding with the Department of Education's companion survey of pupil population, thus resulting in a 412,500 burden hour reduction every other year. Another substantial burden reduction in the Comission's reporting requirements is planned for fiscal year 1983. The Local Union Report (EEO-3) will be revised to request information only from referral unions, thus eliminating the non-referral union reporting requirement. This will reduce reporting burdens by 33,000 hours.

Review of Uniform Employee Selection Guidelines: The Commission's guidelines for employee selection procedures have been designated for review by the Task Force on Regulatory Relief pursuant to Executive Order 12291. EEOC staff is considering initiatives available to the Commission to study these guidelines with a view towards reducing regulatory burdens.

Review of Sexual Harassment Guidelines: The Commission's Sexual Harassment Guidelines have also been designated for E.O. 12291 review. Commission staff has developed several alternative approaches for reviewing these guidelines to determine how more adequate guidance can be provided to employers regarding what is prohibited sexual conduct within the meaning of Title VII of the Civil Rights Act.

Reduction of Duplication through Coordination: The Commission is charged with reducing duplicative efforts by the various federal agencies enforcing different employment discrimination prohibitions. In furtherance of this effort, a proposed rule has been issued which will allow fund granting agencies to refer employment discrimination complaints to the EEOC for investigation and conciliation. The rule will reduce duplicative efforts by Federal agencies enforcing anti-discrimination statutes, as well as reduce the burden on employers covered by more than one of those prohibitions.

Additionally, in order to promote uniformity in complaint processing procedures, the Commission has recommended to the Department of Justice that its coordination regulations under E.O. 12250 should make the procedures for handling complaints alleging discrimination in the provision of benefits and services consistent with equal employment opportunity complaint processing procedures.

Reduction of Duplication through Certification of State and Local Fair Employment Agencies: The Commission's very recent procedures for certification of state and local fair employment agencies are expected to result in substantial savings for both the Commission and the state and local agencies receiving certification. As a result of these new procedures, the Commission will accept the findings and resolutions in discrimination cases processed by certified state and local agencies, with certain exceptions, without conducting an individual case-by-case review of those findings and resolutions. As a result, the number of case files reviewed by the Commission is expected to decline by about 85 percent, that is, approximately 34,000 fewer reviews per year. This is expected to save the Commission nineteen staff years annually. Additionally, for those state and local agencies which are certified, this will mean a substantial reduction in the amount of costs (in terms of time, resources and money) spent in copying case files and forwarding them to the Commission.

FEDERAL COMMUNICATIONS COMMISSION (FCC)

The Federal Communications Commission has pursued a great number of regulatory relief initiatives in three overall categories:

- Legislative Reforms;
- Management Initiatives, and
- Rulemaking Actions.

Legislative Reforms: The Commission has proposed two sets of legislative reforms to Congress, designated as "Track One" and "Track Two" reforms. Track One reforms are largely technical amendments to the Communications Act of 1934, including for instance a proposal to eliminate the requirement for individual licensing for Citizens Band radio operators. Also among the Track One reforms is a proposal to allow random (i.e., lottery) selection of qualified applicants for mutually exclusive licenses, thereby eliminating the need for the costly and time-consuming comparative hearing process now used.

Track Two reforms are more substantive and hence more controversial. For example, one reform would establish a presumption in favor of marketplace forces over Commission regulation to determine what telecommunications services will be available to the public. Also very significant is the proposal to accord the electronic press the same First Amendment freedoms currently enjoyed by print media. This would be accomplished by a repeal of Section 315 of the Communications Act which requires a broadcast station to provide "equal opportunities" for use of a station's facilities to all legally qualified candidates for public office and also includes the so-called "fairness doctrine," requiring broadcasters to give air time for all points of view on controversial issues. While these standards may have had a place when broadcast stations were few, the current environment of competition makes them unnecessary and creates unnecessary opportunities for government interference with freedom of speech. Track One has become law, and with Congressional implementation of the Track Two proposals, significant regulatory relief will be assured.

Management Initiatives: A second major area of the Commission's regulatory relief initiatives has been improvement in management. Some of the specific initiatives taken to date are implementation of a Management by Objective system, creation of a Managing Director position to perform executive functions, and establishment of a Regulatory Review Working Group to examine, according to a benefit-cost analysis-based priority system, all of the Commission's 4,500 regulations. A particular concern of the group has been to identify unnecessary paperwork burdens, and a preliminary review

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indicates that as many as 40 percent of the Commission rules containing paperwork requirements can be simplified or eliminated. The most striking result of the Commission's improved management system to date is a reduction of nearly 65 percent in the paperwork burden it places on the public between FY 1981 and FY 1982. The Commission was the single most successful agency in the federal government in eliminating unnecessary paperwork requirements last year.

Rulemaking Actions: Of course, the bulk of the Commission's regulatory relief activities take the form of changes in its regulations. The Commission has been especially active in the broadcasting area, where it has authorized or proposed several new services, including direct broadcast satellites, low power television, a new form of TV service via teletext data transmission, and AM stereo. Following on earlier decisions to deregulate radio broadcasting, the Commission has recently voted to substantially deregulate subscription television and proposed to deregulate auxiliary television stations and noncommercial radio and television. In the future the Commission may examine whether commercial television should be deregulated along the lines of radio deregulation. Additionally, the Commission intends to review the basic ownership rules which, in large measure, dictate and perhaps skew the overall structure of the broadcast marketplace.

The Commission has also taken several important steps in the common carrier area. It continues to implement its landmark Computer II decision by deregulating customer premises equipment and enhanced services. It has now confirmed its tentative finding in its Competitive Carrier decision that it has discretionary authority to exempt non-dominant carriers from many aspects of FCC regulation. As a first step in applying this discretion, the Commission has decided not to regulate resellers of basic terrestrial communications services -- carriers who do not own transmission facilities and obtain basic services from underlying carriers for resale. These carriers are thus exempt from the FCC's basic rate and entry regulations. Other initiatives include affirming the decision to allow wireline carriers and radio common carriers to apply for cellular mobile telephone service authority, proposing to reduce orbital spacing requirements for communications satellites, and allowing Comsat to compete with other carriers in offering "end-to-end" international communications services.

The Commission's regulatory efforts, however, are not confined to those regulations affecting the major participants in the telecommunications marketplace. The Commission intends to review and seek elimination of the plethora of regulations that affect smaller entities in the day-to-day operations of their businesses. Included among these "underbrush" items are those conduct related rules prescribing minute details of station operation. The agency's computerized plan for review encompasses in a unified manner its own regulatory reform goals as well as OMB form review and the statutory requirements reflected in the Regulatory Flexibility and Paperwork Reduction Acts.

FEDERAL ENERGY REGULATORY COMMISSION (FERC)

The Federal Energy Regulatory Commission has been actively examining its regulation of natural gas pipelines, electric utilities, hydroelectric power licensees, and oil pipelines to eliminate unnecessary or burdensome requirements and to streamline its administrative processes.

FERC also has made a great deal of progress in removing unnecessary reporting and filing requirements. To date, 53 forms, applications and other paperwork burdens have been either eliminated or reduced and 17 more have been targeted for reduction. This has resulted in combined annual savings to firms subject to FERC's jurisdiction of more than 900 work years and $27 million. The Commission expects to complete its review and revision of all forms and filing requirements by 1984.

The Commission also has begun to use rulemakings to provide a focussed, cohesive approach to generic issues and to reduce the regulatory and administrative burdens of policymaking by adjudication. However, where appropriate, FERC has employed precedent-making cases to provide guidance to regulated industries as to current and future trends in agency policymaking.

- Natural Gas Wellhead Pricing;
- Natural Gas Pipeline and Price Regulation;
- Electric Rates;
- Hydroelectric Power, and
- Oil Pipelines.

Natural Gas Wellhead Pricing: The Natural Gas Policy Act of 1978 replaced wellhead price regulation of natural gas under the Natural Gas Act with a complex new system of price controls. Some categories of gas are regulated on a putative cost-of-service basis and others are subject to incentive prices. A schedule of partial deregulation would allow about 60% of domestic gas to be price-deregulated in 1985.

The 1978 Act did not address institutional distortions created under the previous regulatory regime, particularly gas purchase contract provisions which permit prices to escalate but not to decline. Since the statute prices a sizable proportion of gas supply at less than marginal cost, and will continue to do so after 1985, it has had the effect of forcing pipeline purchasers to pay prices above market-clearing levels for some categories of gas. By averaging above-market price against gas in inventory priced below market under the Act, pipelines have been able, until recently, to avoid exceeding market-clearing levels.

Recently, however, the combination of steep declines in alternative fuel prices, sharp increases in average prices under the Act, and downward price inflexibility caused by gas contract conventions have caused average gas prices to exceed market-clearing levels in some areas. The resulting loss of sales volumes has caused remaining customers to be charged considerably more for gas than would be the case in a free market. Accordingly, despite the absence of a clear consensus on the Commission in favor of wellhead price deregulation of gas, the Chairman has assumed a leadership role in advocating it.

In addition to allowing free market efficiences to lower consumer prices, gas deregulation will permit the elimination of about 200 positions at the Federal Energy Regulation Commission, yielding a saving to the taxpayers of about $8 million per year. Considerable administrative savings at the Commission will also be achieved, and very substantial administrative savings will accrue to private industry, which also will help reduce prices paid by consumers.

Natural Gas Pipeline and Price Regulation: Under the Natural Gas Act, no company may engage in the interstate transportation and sale of natural gas without first receiving a certificate of public convenience and necessity from the Commission. Once having received such a certificate, companies cannot abandon any jurisdictional service or facility without again obtaining approval from the Commission. Traditionally, certificate applications have been considered on a case-by-case basis. To make the licensing process more efficient and less burdensome, the Commission has adopted a blanket certificate program.

Under Phase One of the program, already in effect, interstate pipelines may obtain a one-time blanket certificate that provides them with automatic authorization to engage in specified construction, operational activities and storage services that meet certain cost, volume or capacity criteria. The automatic authorization is subject only to a reporting requirement in routine matters, and to a notice and an opportunity-to-protest procedure for more complex or significant matters.

In the second phase of the program, the Commission is proposing blanket authorizations for certain gas transportation and sales activities, including off-system sales by one interstate pipeline to another, subject to annual volume limitations, reporting requirements and a notice and protest procedure.

The Commission estimates that full implementation of the blanket certificate program will reduce the regulatory burden on industry by approximately 25,000 hours per year. It will also significantly reduce the administrative burden of handling certificate applications on a case-by-case basis and speed up processing time. The program will decrease pipeline industry costs, which will in turn reduce the prices that public utilities must pay for the gas they supply to individual business consumers and home owners. In many localities a "fuel cost surcharge" is now passed directly through to individual consumers: the Commission's blanket certificate program should result in at least some small reductions in those fuel cost surcharges.

Electric Rates: Under the Federal Power Act, the Federal Energy Regulatory Commission is responsible for regulating wholesale sales of electric power in interstate commerce and the transmission of electricity in interstate commerce. The Commission must assure that rates for wholesale transactions are just and reasonable, and not unduly discriminatory or preferential. To expedite the rate making process, the Commission has delegated authority to the staff to act on certain routine and non-controversial applications. Approximately 85 percent of the rate filings are completed under these delegations, freeing Commission members to concentrate on the important and controversial issues.

The Commission has also proposed a rulemaking to adopt generic rates of return on equity for three different risk categories of electric utilities. These generic rates of return would be applied in individual rate proceedings where the parties had not settled the issue by agreement. Since disputes over rates of return are often a complex and time-consuming element of rate litigation, a generic resolution of this issue should substantially reduce regulatory lag and trial expense.

Generic rates of return may also play a role in establishing performance standards for utilities. The existing regulatory structure gives utilities few incentives for efficient managerial performance. The traditional approach to improve performance is to "second guess" utility actions in rate cases or other regulatory proceedings. The Commission is now studying the feasibility of a second approach -- establishing specific performance targets. Its principal advantage is that the agency would only measure a utility's performance against a specific standard. The Commission would not be required to attempt an overall assessment of the utility's operating efficiency or to "second guess" utility management on a multitude of specific decisions.

The Commission also is considering voluntary experiments to test whether price regulation can be relaxed for certain bulk electric power transactions. The focal question is whether a surrogate for effective competition can be created. The proposed experiments would analyze the potential for expanded electric energy brokering and other arrangements for exchanging energy among utilities.

Hydroelectric Power: The Commission's hydropower responsibilities include licensing hydroelectric generating facilities and assuring dam safety. The Energy Security Act of 1980 authorizes the Commission to exempt certain small hydroelectric power projects from the licensing requirements of the Federal Power Act. FERC is now in the final stages of a rulemaking to exempt certain projects having a generating capacity of 5 megawatts or less from licensing requirements upon filing a Notice of Exemption. These categorical exemptions eliminate the need for case-by-case processing of approximately 20 percent of feasible small (5 MW or less) hydroelectric power projects.

Other categories of projects qualify for exemption from Federal Power Act licensing upon application. The Commission has reduced and simplified the amount of information required in an application to reflect the non-burdensome intent of the exemption procedure.

Oil Pipelines: The Commission's principal initiative in this area has been its support of legislation to repeal federal control of oil pipeline rates. The Commission believes that there is a competitive market for oil pipeline transportation and that existing price regulation is inefficient and unnecessary, and thus results in higher prices than a deregulated market would produce. The Commission also has taken steps to reduce the administrative burden on this industry including a revision of the reporting requirements for oil pipeline carriers which is expected to save the industry 5,600 hours per year.

FEDERAL HOME LOAN BANK BOARD (FHLBB)

As financial markets become more competitive, the Board's regulations restricting thrift institutions' activities have come to be burdensome, preventing them from entering new markets and making other business decisions in the unfettered manner demanded by a competitive environment. The Board has taken a number of initiatives to relieve the unnecessary regulatory burdens it imposes on thrift institutions and hence allow them to compete more effectively. These initiatives fall into three categories:

- Competitive Markets Initiatives;
- Facilitation of Merger Activity; and
- More Efficient Deposit Insurance.

Competitive Markets Initiatives: The primary thrust of the Board's regulatory relief activities is to limit government intervention in private sector decisionmaking — to allow institutions to make their own decisions about what services and products to offer and how. Several important regulatory changes have been made in this regard. The Board has eased its restrictions applying to the design of certificates of deposit, loophole money market certificates, and Eurodollar certificates, and has allowed federally-chartered thrift institutions to design any type of fixed, variable, or graduated rate mortgage instrument subject only to the requirement that the terms be disclosed to the buyer. In addition, restrictions on borrowing by FSLIC-insured institutions have been lifted, and the Board has approved a regulation to allow savings and loans to provide correspondent services to each other to minimize their dependence on commercial banks for these services.

Finally, the Board supported with great vigor the recently-enacted Thrift Garn-St. Germain Depository Institutions Act, which gives federal savings and loans authority to engage in many commercial activities currently denied them, including commercial lending, demand deposits, consumer lending, equipment leasing, and other activities.

Facilitation of Merger Activity: Mergers may play an important role in accomplishing restructuring of financial institutions to accommodate the more competitive environment. However, Board regulations restricting merger activity can delay beneficial mergers and raise costs unnecessarily. With this in mind, the Board has acted to revise its guidelines for reviewing mergers. First, it has proposed a new three-tiered approach to merger processing that would result in approximately 80 percent of all mergers being allowed to proceed within 30 days. Second, the Board's internal procedures for assessing mergers have been revised to simplify its decisionmaking process and concentrate resources on mergers with potential anticompetitive effects. Third, several changes have been made in securities trading regulations pertaining to ownership of saving and loan stock, including institution of a procedure analogous to the SEC's "shelf registration" procedure, which allows firms to receive approval for stock issuances and then choose when to actually issue the stock. The combined effect of these changes will be to allow savings and loans to restructure according to competitive conditions and to lower the cost of capital for the entire industry.

More Efficient Deposit Insurance: The Board has been studying the possibility of moving to a system of deposit insurance that would more efficiently reflect different institutions' operating plans, management strategies, performance records and inherent risk features. In essence, different institutions would be charged different premiums depending on the riskiness of their operations. The Board's Office of General Counsel is studying the means by which such a proposal could be incorporated in new legislation. If adopted, variable premium insurance could reduce overall insurance costs and result in a more efficient risk-bearing device.

FEDERAL MARITIME COMMISSION (FMC)

The Federal Maritime Commission has focused its regulatory relief efforts on five major areas:

* Legislative Reform of the Shipping Act of 1916;
* Deregulation of Domestic Offshore Trade;
* Use of Exemption Authority to Remove Unnecessary Burdens;
* Cost-Recovery User Fees, and
* Establishing Improved Channels of Public Communications.

Legislative Reform of the Shipping Act of 1916: The Commission's highest priority has been to work with Congress to reform and update the Shipping Act. The revisions of the Act being considered by Congress would eliminate preapproval standards for cooperative agreements among carriers and others, ending an era in which the Commission has been forced to speculate about the effects of such agreements in the absence of operational experience. By eliminating the costly and time-consuming preapproval process, this legislation would allow U.S. carriers to adjust more efficiently to the rapidly changing needs of international and domestic waterborne commerce. Needless and costly government delays would no longer frustrate legitimate commercial responses to an extremely dynamic marketplace. It should be noted that the Commission has never administered controls on entry, route determination, levels of service, or rates, and this legislation would not affect the traditional "hands-off" policy in these areas.

Deregulation of Domestic Offshore Trade: The Commission is currently involved in another activity that emphasizes its approach to introducing competition wherever possible. It has begun an inquiry into deregulation of domestic offshore trades, including Hawaii, Guam and Puerto Rico. In contrast to its "hands-off" policy towards international shipping, the Commission's traditional role in this area has been public utility-style rate setting. By pre-empting the forces of the marketplace, the Commission believes, government may be an unwilling participant in what could otherwise be a viable competitive situation. The Commission is seeking input from interested parties, including the Interstate Commerce Commission and Department of Transportation, on both legislative and regulatory proposals to eliminate unnecessary regulation in the offshore market. In particular, it is seeking comment on alternative methodologies for assessing the reasonableness of rate proposals.

Use of Exemption Authority to Remove Unnecessary Burdens: One means available to the Commission to remove unnecessary regulatory burdens is its exemption authority under section 35 of the Shipping Act, which allows exemption of activities where an exemption will not substantially impair effective regulation, be unjustly discriminatory or detrimental to the interests of the U.S. Under this authority the Commission has aggressively examined many of its programs with a view towards eliminating unnecessary regulations. Since 1980 the Commission has taken 15 such deregulatory actions, including removing certain financial reporting requirements for domestic offshore carriers, eliminating unnecessary requirements for some environmental analyses, and exempting many routine types of matters from filing requirements.

Cost-Recovery User Fees: Finally, the Commission has issued a Notice of Proposed Rulemaking to revise its schedule of user fees to make them more accurately reflect the agency's true costs. The Independent Offices Act of 1952 provides that benefits from Commission action accruing to particular segments of the population should be supported to the maximum extent possible by fees and charges. The Commission has recently taken steps to improve its compliance with this statute, both by restructuring and increasing already existing user fees and by adding user fees where there have previously been none. The revised schedule of fees is based on a complete evaluation of the costs of Commission services, which will also allow for improved allocation of its resources.

Establishing Improved Channels of Public Communication: The Chairman of the Commission is also involved in a program to improve the channels of communication between the agency and the entire maritime community. Beyond continuing his rigorous speaking schedule, the Chairman is planning a series of informal field hearings in the major shipping centers of the U.S. These hearings will provide a forum for shippers, carriers, freight forwarders, port authorities and other interested parties in the private sector to discuss current policy and operational concerns with key agency staff. Furthermore, such sessions should improve relations with the general public and afford them a greater understanding of the importance of oceanborne commerce to U.S. economic vitality.

FEDERAL RESERVE BOARD (FRB)

The Federal Reserve Board has undertaken a major Regulatory Improvement Project. In recent years it has completed reviews of 12 of its 27 lettered regulations, with five additional reviews near completion. In most cases, it has issued complete revisions of the regulations and, in two cases, rescinded a regulation entirely. Specifically, recent initiatives have reduced regulatory burdens in each of six major areas of FRB regulatory activity:

- Monetary Policy Regulations;
- Securities Credit Regulations;
- Banking Structure;
- Consumer and Community Affairs Regulations;

- Increasing Public Input, and
- Regulatory Initiatives in the Upcoming Year.

The Board has also undertaken important initiatives to promote public understanding of its regulations and increase public input into its regulatory activities.

Monetary Policy Regulations: In 1980, in order to enhance monetary policy, the Monetary Control Act gave the Board jurisdiction to set reserve requirements for an additional 35,000 depository institutions. To facilitate compliance, the Board revised its Regulation D, as well as its regulation on the use of the discount window (Regulation A). To ease the burden for small institutions, the Board has continued to defer reserve and reporting requirements on a temporary basis for any nonmember institution with total deposits of less than $2 million, which affects nearly 16,000 institutions, mostly credit unions. Very recently, upon the Board's recommendation, the Congress enacted legislation that makes the exemption permanent. For other small institutions ($2 - $15 million in deposits), the Board decided to permit quarterly reports rather than weekly reports, thereby considerably reducing the reporting and reserve management burden for another 22% of the nation's depository institutions.

In June 1981, the Board adopted changes in Regulations D and Q to allow depository institutions to establish international banking facilities in the United States. Deposits at these facilities, which must conduct an essentially international business, are exempt from reserve requirements and from remaining interest rate limits. The changes allow depository institutions to compete with Euromarkets from U.S. offices, while preserving the effectiveness of the Board's monetary policy instruments.

Securities Credit Regulations: In January 1982 the Board adopted proposals to allow greater freedom for brokers and dealers to offer financing in conjunction with investment banking services, to narrow the differences in regulation of lending by banks and by lenders who are neither brokers nor dealers, to eliminate "equity building" devices that limit investor freedom to reallocate their portfolios, and to reduce the coverage of the U-1 report form that banks and their customers must complete when loans are made on stock. Apart from increasing competition between banks and broker/dealers and providing increased consumer flexibility in investment decisions, these changes will result in a paperwork burden reduction of more than 1 million hours.

Separately, the Board adopted changes in Regulation T to create a "good faith" margin requirement that allows each exchange, rather than the Board, to set margin requirements on uncovered options on government securities, and to allow brokers and dealers to use irrevocable letters of credit and certain other instruments as collateral when borrowing securities. These changes create additional flexibility and promote the more efficient operation of securities markets.

Banking Structure: The Board has simplified procedures for engaging in banking overseas and establishing branches in foreign countries, in some situations requiring no more than a simple after-the-fact notification (Regulation K). Permitting Edge Corporations (limited purpose banking facilities established by U.S. banks for international finance) to establish branches in the U.S. for the first time has resulted in more efficient operations and in the establishment of facilities in cities not previously served by Edge Corporations. Recently, the Board amended Regulation K further to permit Edge Corporations in the United States to offer certain investment, financial and economic advisory services. These changes have enhanced the organizational and operational flexibility with which United States banks can conduct international activities, with particular emphasis given to upgrading the competitive capabilities of Edge Corporations at home and abroad. In this connection, however, the Board reported to the Congress that Edge Corporations will still not be able to compete effectively with foreign banks operating in the United States unless they are given more liberal lending powers and other statutory changes are made.

By regulation or by order in individual cases, the Board has permitted bank holding companies to engage in new nonbanking activities not previously available to them, such as the issuance of travellers checks, expanded data processing activities, acting as a futures commission merchant, engaging in financing commercial real estate development by the placement of equity interests, and management consulting to thrift institutions. Such expansion will promote competition in these fields through the addition of new entrants.

In revising its regulation on management official interlocks among depository institutions (Regulation L), the Board created a number of exceptions to permit interlocks, particularly for the benefit of new or minority institutions. More recently, it has proposed additional steps to relieve the regulatory burdens, including an amendment that would especially aid small institutions facing a disruptive loss of management because of the Depository Institutions Management Interlocks Acts.

Consumer and Community Affairs Regulations: Under authority granted by the Truth in Lending Simplification and Reform Act, the Board recently completed a thorough revision and simplication of its truth in lending regulations (Regulation Z). The new regulation reduces the number of required disclosures, provides increased flexibility in making disclosures that are required, and clarifies complex legal questions that had produced conflicting court decisions in the past. Included in the new regulation are model disclosure forms that, if used properly, guarantee compliance with the federal law. This feature should reduce litigation costs as well as executive and legal time spent designing forms. The new Regulation Z is about 40 percent shorter than its predecessor, and an official commentary has been published as a service to users.

The Board has also revised Regulation C, which implements the Home Mortgage Disclosure Act. This Act requires banks and thrift institutions located in standard metropolitan statistical areas to make annual disclosures concerning the neighborhood distribution of their mortgage and home improvement loans. The Board's new regulation simplifies the disclosures required and is cost-effective within the statute. The Board also has also recommended to Congress that it create statutory authority to exempt institutions that are relatively inactive in residential financing.

Increasing Public Input: The Board has also attempted to increase public awareness of its activities and solicit public input. One important initiative in this vein is the 1981 publication of both the Federal Reserve Regulatory Service and separate handbooks on each of the major areas of FRB regulations. The comprehensive collection and publication of the various rules under which the Federal Reserve System operates should promote a dialogue on rules that may be inconsistent or unnecessarily burdensome as well as improve the overall accessibility of Board rules. In addition, as part of its communication efforts, the Board has held conferences and distributed explanatory materials on its regulations; has conducted several surveys of public and financial institution reactions to its regulations, including a voluntary survey of about 100 depository institutions on the incremental costs of complying with certain consumer protection regulations; has undertaken surveys of consumers to determine their perceptions of problems in consumer protection areas; and has instituted a series of colloquia on deregulatory issues that bring businessmen together with agency policymakers. The net effect of the public input program is to allow the Board to better estimate the benefits and costs of its rules and change them accordingly.

Regulatory Initiatives in the Upcoming Year: During the next six months, the staff should complete its review of Regulation Y (Banking Holding Companies and Change in Bank Control), and public comment on proposed changes will be sought. It is expected that application procedures will be eliminated in some cases or greatly simplified, and a sizable number of Board rulings as well as essential statutory material will be collected and incorporated to make the regulation a self-contained and more useful document. These proposals are being designed to reduce regulatory burdens significantly, as well as reduce system costs, and increase efficiency in the administration of the statute through greater disclosure of Board policies. The Board will also continue to develop the ongoing revisions of the "securities credit" regulations to simplify unnecessary complexities and eliminate obsolete provisions. Changes in the regulations will promote efficiency by modernizing a regulatory framework that dates back half a century. Finally, the staff plans to begin work as soon as possible on the comprehensive review of some of the 10 remaining regulatory areas that have not yet been reviewed to reduce any unnecessary burdens.

FEDERAL TRADE COMMISSION (FTC)

The Federal Trade Commission has taken a variety of actions to reduce the burdens it places on the private sector and to lessen the "adversarial" tone that had come to typify its relations with regulated industries. These initiatives can be grouped into these broad areas:

- Integration of Economic Analysis in Agency Decisions;
- Analyzing Pending Actions;
- Revising Enabling Statutes;
- Competition and Consumer Advocacy;
- Improving Communications with Outside Parties, and
- Future Plans for Regulatory Reform.

Integration of Economic Analysis in Agency Decisions: Economic logic has become an integral part of decisionmaking at the FTC. Instead of agency attorneys moving forward alone with initial investigations that might lead to a regulatory proceeding or injunction, economists from the Bureau of Economics together with agency attorneys examine issues and reach agreement that there is both legal cause for action and economic benefits from taking that action--that is, there are expected net consumer benefits. The emphasis on economic logic as a foundation for legal action at the origin of agency initiatives yields maximum assurance that any regulatory action taken has the promise of being cost-effective and beneficial to consumers.

Analyzing Pending Actions: In recent years, the regulation pipeline at the Commission has become clogged with a backlog of matters awaiting final action. Lacking an economic theory to guide rulemaking decisions, proceedings have often lacked focus. There were sometimes no schedules for future actions, and some rulemakings received no staff attention at all for several months. As a result, possible targets of Commission proceedings found themselves facing considerable uncertainty regarding agency intentions. Bureau personnel have worked to reduce this backlog; between October 1981 and April 1982 about one-fifth of all Bureau of Competition and nearly one-third of all Bureau of Consumer Protection pending cases were closed, significantly reducing the backlog facing the Commission. Wherever possible, affected industries have been given greater certainty regarding pending actions, thus reducing the burden of regulatory uncertainty.

Revising Enabling Statutes: The Commission's authority to prohibit "false, deceptive, or unfair" acts or practices against consumers has been the source of difficulty in the past, especially where that authority has been used to pursue "new theories" of regulation not well-founded in law or economics. To avoid such instances in the future, the Chairman has worked with Congress to develop new legislation to better define which activities should be considered deceptive. At the same time, Commission authority to direct its activity towards some sectors of the economy, including insurance and agricultural cooperatives, has recently been limited. Working diligently with Congress to preserve the Commission's authority to prohibit price-fixing and boycotts in all areas of the economy has been another important area of activity.

Competition and Consumer Advocacy: The Commission has begun a new "Competition and Consumer Advocacy" program that focuses the resources of the Commission on regulatory proceedings at other agencies and on proposed legislation. The Commission has long been aware that government initiatives, as well as private action, may in some cases decrease competition and consumer welfare. As a result, the FTC has traditionally been active in espousing pro-competitive and pro-consumer actions before other government bodies. What is new under Chairman Miller is a more systematic evaluation of the areas where Commission intervention may make a difference, and greater use of economic analysis in the interventions undertaken. The "Competition and Consumer Advocacy" program draws upon existing knowledge and specialized capacities within the Commission's three bureaus, giving priority to intervention opportunities where FTC participation may contribute to the achievement of appreciable economic benefits. In particular, the Commission has been involved in hearings before the International Trade Commission which address allegations that foreign producers are selling steel below cost in the U.S. Comments have also been offered on a variety of matters, including several proceedings before the Interstate Commerce Commission and on Federal Communications Commission rules concerning satellite transponder sales and broadcast license ownership restrictions. The goal of the program is to make the Commission's economic expertise available in the deliberations of other regulatory agencies.

Improving Communications with Outside Parties: In an effort to reduce the adversary relationship that seemed to exist almost continually between the agency and those groups interested in its policy actions, the Chairman has initiated a series of breakfast dialogues at the Commission. The breakfasts allow for informal discussion of agency issues emphasizing ways to improve communications. The Chairman has also accelerated his speaking schedule to provide greater access to agency thinking. Key agency staff have also scheduled meetings across the country to increase understanding of the reasons for FTC actions.

Future Plans for Regulatory Reform: Several regulatory reform projects are in the planning stages at the Federal Trade Commission. Over the course of the next two years both law enforcement bureaus--the Bureau of Competition and the Bureau of Consumer Protection--will be developing clearer guidance for law enforcement actions. The Bureau of Consumer Protection will develop a series of protocols that define more clearly how certain market practices, e.g., credit and advertising, will be evaluated prior to the initiation of agency action. This effort to provide better information to market participants is intended to reduce the level of regulatory uncertainty, thereby producing one of the desired effects of deregulation. The Bureau of Competition plans to accelerate its review of older antitrust consent orders, considering the current applicability of those orders in the light of existing market conditions, and where appropriate, offering recommendations for revisions.

The agency's Business and Consumer Education program will develop carefully researched and developed educational products and programs designed to augment and/or replace regulatory approaches which might be taken in the consumer protection area. Wherever possible, the agency will seek to aid the development of a better informed market place as an alternative to the formation of more highly regulated markets.

While these planned activities are under development, the agency will continue to improve mechanisms for emphasizing the application of economic reasoning to its law enforcement decisions, as well as to intensify ongoing efforts gauged to reduce the administrative burden of its programs carried by the private sector.

INTERSTATE COMMERCE COMMISSION (ICC)

During 1980 the Congress passed the Motor Carrier Act and the Staggers Rail Act, calling for substantially reduced regulation of the trucking and railroad industries, respectively. The Commission's recent activities have consisted largely of implementing these two statutes and of proposing further deregulatory initiatives to the Congress. For purposes of this summary, the Commission's regulatory relief initiatives can be divided into five categories:

* General Reform Activities;
* Initiatives to Deregulate Trucking;
* Initiatives to Deregulate Railroads;
* New Legislation to Deregulate Buses, and
* New Legislation to Further Deregulate Motor Carriers.

General Reform Activities: In July of 1981, the Chairman's Office began a careful, consistent, and comprehensive review of all Commission regulations, aimed at determining which regulations were no longer appropriate, necessary, or meaningful in today's environment. Using the technique of cost/benefit analysis, we have examined more than 150 regulations. We have targeted 45 regulations or CFR sections to be addressed by this September. Due to consolidation of some sections of the CFR, the number of proceedings was reduced to 35. The majority of these rulemakings are completed. Ultimately, we believe the savings to our regulated carriers and the public, in terms of time, paperwork and money, will be enormous. It should be noted that, despite limited resources, we have kept this review on target while laying the groundwork for implementation of bus deregulation through 18 initial implementation rulemakings.

Along with our regulatory review, we have established a statutory review committee, and charged it with identifying and recommending those areas where the Commission can responsibly seek a divestiture of its statutory responsibilities.

The Committee's approach is to presume that specific areas of substantive jurisdiction are ripe for relinquishment. Only if it can be demonstrated that a particular area is absolutely essential will it be retained. Input from the private sector will be actively solicited soon.

One example of the statutory areas previously reviewed can be found in our proposal to terminate the Commission's jurisdiction over security issuances by motor carriers. Our proposal has now become the "Bus Regulatory Reform Act of 1982," which the President has just signed into law.

The statutory review committee is compiling a list of areas of possible divestiture of statutory responsibility which we intend to use in working with the Administration and Congress relative to preparation of a substantial motor carrier deregulatory proposal for next year.

Initiatives to Deregulate Trucking: The Commission has sought to provide increased competition in the trucking industry by facilitating applications for new authority and more competitive rates by trucking firms. It continues to approve about 95 percent of the entry applications it receives, including applications for nationwide authority. Of the 600,000 rate applications it will receive during 1982 (most of which involve reductions in rates), only a small minority will be disapproved.

Among the most notable accomplishments during the past 15 months has been the replacement of the fuel surcharge program with a more equitable, mileage-based method of reimbursing independent truckers for their out-of-pocket costs. The agency had struggled with the inherently flawed fuel surcharge program since June of 1979. Converting the program to a cents-per-mile reimbursement method has corrected many inequities while continuing to offer a measure of economic protection for independent truckers.

Independent truckers also will benefit from the Commission's decision to allow them to lease directly to private carriers. (Ex Parte No. MC-122 - February 17, 1982.) This decision -- currently being challenged in the courts -- was made with the intent of stimulating competition while improving the economic well-being of independent truckers.

The Commission proposed modifications to the leasing rules which would allow private carriers to trip-lease their equipment and drivers to authorize carriers. (Leasing Rules Modifications, Ex Parte No. MC-43 (Sub No. 12)). After a review of the public comments, the staff was instructed to prepare a proceeding shortly after the decision in Ex Parte No. MC-122 (Sub No. 2) Lease of Equipment and Drivers to Private Carriers, which was served February 17, 1982. Unfortunately, the initial draft which was prepared by the staff in January was far too lengthy and required substantial revision. The necessary revisions are now completed, and a final decision should be served shortly.

Following survey evidence that many independent owner-operators did not understand the reduced entry barriers created by the Commission's new policy, the Commission has conducted over 30 two-day training sessions for these carriers with the intention of encouraging familiarity with and utilization of its easier authority-application procedures. These training sessions have been of tremendous assistance to this important class of small businessmen.

In addition, the Commission revised and clarified application regulations pertaining to operating authority sought as a direct substitute for abandoned rail service. (Ex Parte No. 55 (Sub No. 43C) -- November 20, 1981.) This "fitness only" service protects shippers and commuters which might be adversely affected by rail abandonments.

The processing of applications is still moving forward at a rapid rate. Using the standards adopted in the Motor Carrier Act, the Commission has continued granting roughly 95% of all motor carrier operating rights applications.

After working with the Motor Carrier Act for only a short time, it became readily apparent that the "evidence of public need standard" should be eliminated from the entry requirements for motor carrier applicants. The conclusion we reached, which led to a legislative proposal, was that this standard serves no useful purpose and consumes an undue amount of our limited resources.

However, our suggestion that the Commission rely solely upon the "fit, willing, and able" test is not part of a scheme to create some new kind of entry barrier. The sole purpose of the standard is to protect the public interest by assuring safe and responsible motor carrier operations on America's highways. To make this point certain beyond any doubt, Congress has been asked to emphasize that the fitness requirement is not intended to constitute an undue burden. In fact, to bring about consistency, the legislative treatment of fitness for motor carriers of property should correspond with the one (i.e., dealing with safety and insurance) adopted in the bus legislation.

Pricing innovation and independent ratemaking have substantially increased since enactment of the Motor Carrier Act. Independent actions have soared: more than 600,000 motor carrier filings are anticipated this year (based on data for the first eight months of 1982).

The vast majority of these filings are rate reductions which are routinely approved. Volume discounts, multiple shipment discounts, shipper allowances and aggregate tender discounts are among the new price options offered by carriers in accordance with the intent of the Act.

Where allegations of predatory and discriminatory pricing are submitted, they are examined on a case-by-case basis. It may well be that the complaints of this nature now being received are due to transitional problems, exacerbated by recent economic conditions. However, public comment and Commission clarification and guidance in this area should promote certainty, clear the air, and promote rate innovation.

Another important proposal currently pending before the Commission would eliminate the necessity of contract carriers filing tariffs with the Commission.

The Commission has confined its enforcement efforts to two major public interest areas: unsafe and unauthorized operations. The Chairman has consistently emphasized that enforcement activities must not entail "gumshoe" operations. The Commmission wants to protect the public from harm, and does not seek to impose petty fines, or to engage in midnight raids. Our modern rule requires a "fine touch" in lieu of the oft-times heavy-handed enforcement techniques of the past.

Deregulation of the trucking industry has not been painless. The current recession has caused decreased industry profits that some have blamed on deregulation; the Commission has been hampered in its efforts by ambiguities in the legislation and by resulting court challenges to many of its regulatory relief initiatives. Despite these barriers, a good deal of progress towards deregulation has been made so far. The Commission will continue to pursue increased competition, including considering proposals for entirely eliminating its trucking regulation activities.

Initiatives to Deregulate Railroads: The Staggers Rail Act provided for increased exemption authority under which the Commission may exempt railroads from rate regulation. It has used that authority to finalize its exemption procedures for trailer-on-flatcar and container-on-flatcar (TOFC and COFC) rates and is considering exemptions in several other areas. The Staggers Act also authorized rail rate contracts between shippers and railroads where rates are not subject to ICC approval. About 100 such contracts are being filed with the Commission each month, indicating that this deregulatory provision is being utilized extensively.

The Commission initiated, early in the Chairman's term, an invitation to the rail industry to be innovative in requesting the Commission to exercise its exemption authority. The industry has responded with requests in such areas as abandonments, trackage rights, leases, new operations, and expedited effectiveness of contract rates.

One of the most significant changes made by the Commission in the rail area has resulted in the cancellation of all rate and route "standard traffic protective conditions" imposed by the agency since 1950. Under the new policy, consolidating railroads will be free to offer lower freight rates for shipments travelling over their routes than for shipments transported over competing routes in which the consolidated carriers formerly participated. This policy promotes efficiency and lower prices to shippers.

Among the first beneficiaries of the new policy was the Norfolk and Western and Southern Railway Systems, whose merger was approved by the Commission in March of this year. The network created by the merger will be the fourth largest rail system in the country.

Shortly after granting the Norfolk & Western and the Southern permission to merge, the Commission approved Guilford Transportation Industries' petition to acquire the bankrupt Boston and Maine Railroad, paving the way for the B&M to emerge from bankruptcy after 12 years. Additionally, the Commission has recently approved Guilford's application to acquire control of the Delaware and Hudson Railway, thereby establishing a 3,830 mile rail system.

On September 13, 1982, the Commission announced its approval of the plan to consolidate the Union Pacific, Missouri Pacific, and Western Pacific into a major system which will run single line service over 22,000 miles of track through 21 states. In approving the plan, the Commission also granted trackage rights to the DRGW, the MKT, and the SP. These rights will provide additional rail competition to shippers throughout the area served by the consolidated system.

The Commission also substantially reduced its filing requirements governing the construction, acquisition and operation of rail freight lines. This change will enable the agency to process applications more rapidly, benefiting both railroads and shippers. The most significant track building proposals have involved construction of rail lines to haul coal. We expect that the lessened filing burden will speed the processing of these applications.

New Legislation to Deregulate Buses: The Commission worked closely with Congress to pass legislation to deregulate the intercity bus industry, and is enthusiastic about the bill recently signed into law by the President. The new law eliminates the public convenience and necessity test for new operating authority and shifts the burden of proof in entry applications to those opposing the grant of authority. In addition, it creates a zone of rate freedom within which carriers are free to change rates without Commission approval. Finally, the new law authorizes the Commission to preempt State regulations that inhibit carrier freedom and prevent achieving operating efficiencies and hence lower consumer prices. The Commission is rapidly implementing the new bus deregulation scheme: proposed regulations have already been released for public comment.

New Legislation to Further Deregulate Motor Carriers: The Commission has recently proposed various changes in motor carrier regulation. As discussed, we have been successful in eliminating ICC regulation of the issuance of securities for motor carriers through the incorporation of a provision of this nature in the bus bill. A provision allowing the Commission to exempt motor carriers of property from Commission jurisdiction with regard to mergers, consolidations and acquisitions of control also was included in the bus bill at our recommendation.

Further legislative initiatives are underway. The Commission intends, as a minimum, to propose a broad motor carrier exemption provision along the lines of the Staggers Rail Act. In addition, the Commission is taking a hard look at all facets of motor carrer regulation. We intend to work closely with the Department of Transportation, OMB, and congressional committee staffs in developing new legislative initiatives, including a revised "fitness only" proposal. Also under consideration is the question of whether to recommend the sunset of all motor carrier regulation.

NATIONAL LABOR RELATIONS BOARD (NLRB)

The National Labor Relations Board differs from the other CIRA agencies in that it does not issue substantive regulations. As a result, the regulatory relief initiatives undertaken have been addressed to procedural regulations governing public relations with the Board. These initiatives are described here under the headings:

- Initiatives Completed to Date, and
- Future Regulatory Review and Simplification.

Initiatives Completed to Date: Within the past year the Board has approved three major revisions in its procedural regulations. It revised its definition of the content of the rulemaking record to include more materials and to allow parties to supplement the record even further. Second, it imposed a 50-page limit on briefs filed before the Board to require more concise statements of issues and arguments and hence lower Board and public costs of evaluating the evidence in each case. Finally, the Board modified the rules under which it oversees employee representation elections to clarify various post-election procedures. In addition to these major changes, eight minor changes were made that will also lead to increased Board efficiency and lower costs on the private sector.

Future Regulatory Review and Simplification: The NLRB has a standing Rules Revision Committee, which evaluates the Board's procedures on an ongoing basis and recommends revisions. In order to further the goal of regulatory relief, the Chairman recently instructed the committee as follows: "I am asking the Rules Revision Committee to expand its activites to include active consideration of all Rules and Regulations with a view toward simplification, elimination or modification of rules that are no longer relevant, or that have become obsolete or simply unnecessary. This is in line with the Administration's policy of cutting down excessive regulations and simplifying procedures before regulatory agencies specifically and all government agencies in general. I would suggest an interim quarterly progress report on such a study with an ultimate aim of completing such overall review within one year." The effect of this across-the-board review of the Board's regulations has yet to be realized, but it is clear that the effect of more efficient and understandable Board regulations will be reduced regulatory burdens for the public and reduced costs for the Board.

NUCLEAR REGULATORY COMMISSION (NRC)

The Nuclear Regulatory Commission has aggessively pursued regulatory reform, particularly through the following three initiatives:

* Committee to Review Generic Requirements for centralized over the imposition of requirements on licencees;
* Regulatory Reform Task Force, and
* Improved Guidelines for Value-Impact Analysis.

Committee to Review Generic Requirements: The Commission's numerous regulatory requirements emanate from a number of different sources within the agency. Because of the large number of these requirements, agency and industry priorities have not always been focused on those matters having the greatest saftey significance.

The Commission's response has been to create a central point -- the Committee to Review Generic Requirements -- where proposed requirements for one or more classes of nuclear power plants can be comprehensively reviewed. The Committee's purpose is to develop controls which assure that new requirements (and present requirements as well) do, in fact, contribute significantly to public health and safety and use Commission and licensee resources in as optimal fashion as possible. The Committee uses cost-benefit analysis and probabilistic risk assessment where data for its proper use are adequate.

The Committee reports to the Executive Director for Operations. Membership on the Committee includes the Deputy Director for Regional Operations and Generic Requirements and one senior official of each of the principal staff program offices.

Regulatory Reform Task Force: It is apparent that the licensing and regulatory processes of the Commission are in need of reform. In November 1981, the Chairman created an internal Task Force to address this problem. The Task Force reviewed the available information on nuclear licensing reform and prepared draft legislation that would mold a licensing process for new standardized nuclear power plants. The legislation was published for public comment and submitted to an ad hoc committee outside the Commission for review. Work may be completed as early as this fall.

The Task Force also is focusing on reforms that can be accomplished within existing laws. One measure recently proposed would revise the standards and procedures that govern retroactive application of new safety requirements to older plants that are already licensed. Other reforms will address the adjudicatory hearing process which applies to nuclear power plant licensing.

A major goal of the Task Force has been to solicit public input on the proposed reforms, and the Commission's creation of the Ad Hoc Committee to Review Task Force Recommendations has allowed individuals with widely differing perspectives to address directly the proposals before the Commission.

Improved Guidelines for Value-Impact Analysis: Partially in response to Vice President Bush's request that the agency comply with the spirit of Executive Order 12291 (which requires Executive branch major regulations to be accompanied by Regulatory Impact Analyses), Commission staff reviewed internal guidance for preparation of Value-Impact Analyses, which are roughly equivalent to Regulatory Impact Analyses. The review was also prompted by Commission Policy and Planning Guidance to evaluate requirements on a cost-benefit basis. As a result of the review, the staff proposed revisions to the guidelines which would provide the flexibility to tailor the scope of the analysis to the significance of the action being considered. The general framework would permit the staff to select methodologies for assessing cost and benefits that are most appropriate for the particular case. The revisions have been approved by the Commission.

SECURITIES AND EXCHANGE COMMISSION (SEC)

Recognizing that investors bear the costs and suffer the consequences of excessive regulations, the Securities and Exchange Commission has reduced corporations' estimated annual compliance costs several hundred million dollars; freed-up an additional estimated $700 million of security industry capital for more productive employment; resolved a seven-year jurisdictional impasse with another regulatory agency which had blocked both agencies from authorizing new financial products for which there is substantial public demand; reduced regulatory costs and improved investor protections by placing greater reliance on private sector self-regulation; and has conferred other major benefits on the investing public.

Simplification and Improvement of Compliance Requirements: In February, 1982, the Commission integrated the registration and reporting requirements under the Securities Act of 1933 and the Securities Exchange Act of 1934 which is one of the most important improvements in the securities laws since they were enacted. Integration telescopes corporations' time requirements and substantially reduces their expenses. At the same time it increases their flexibility in structuring and timing financings -- without compromising the full disclosure of material information to investors. Incorporation by reference in disclosure documents of previously disclosed information eliminates repetitive disclosures. Compliance cost savings aggregate several hundred million dollars per annum.

Other compliance improvements include the new "shelf registration" rule which permits companies to register securities and hold them "on the shelf," pending favorable market conditions. Over 130 redundant accounting releases have been withdrawn and the remaining 71 codified into a ready-reference manual. The prospectus for exchange-listed options has been simplified and a comprehensive review of the proxy regulations is in process.

More Efficient Use of Securities Industry Capital: SEC regulations which constrain broker-dealer capital usage increase the cost of securities services. In January, 1982, the Commission reduced securities firm net capital requirements by approximately $500 million, permitting the more productive use of these funds. The Commission has also authorized the use of letters of credit to secure member firms' contributions to clearing house guarantee funds and to collateralize stock loans, which frees-up approximately $200 million of additional capital.

Other actions which improve market efficiency include modifying rules that have inhibited underwriters from market-making, permitting domestic investment companies to hold foreign securities in foreign depositories and facilitating transactions between institutional investors. These actions increase market efficiency and reduce costs.

Reduced Constraints on Small Business Capital Formation: An area of concern is the high cost of capital to small business. In March, the Commission adopted Regulation D which exempts from Securities Act registration certain offerings up to $5 million. Most states are expected to adopt similar exemptions which will be the first joint state and federal registration exemptions.

Form S-18, a simplified method of registering up to $5 million of securities for first-time issuers, has been extended to noncorporate issuers and to mining, oil and gas firms. The dollar limits on the size of firms exempted from certain reporting and registration requirements has been increased from $1 to $3 million of assets, to take into account inflation since the original thresholds were established. In September, pursuant to the Small Business Investment Incentive Act of 1980, the Commission conducted the first Government Business Forum on Small Business Capital Formation. The Forum's recommendations are being carefully studied, with a view to legislative and other initiatives.

Private-Sector Self-Regulation: Greater reliance is being placed on private-sector self-regulation, under the Commission's oversight. The 428 accounting firms which audit almost all of the 9,000 publicly-owned companies are now on a three-year peer review cycle. The purpose of these reviews is to assure high auditing standards and practices -- which also decreases the potential liabilities of these firms to those who rely on their audits. It is far beyond the Commission's resources to conduct such reviews, but they are carefully monitored by the Office of the Chief Accountant.

The stock exchanges and National Association of Securities Dealers are also enhancing their electronic intermarket surveillance systems and audit trails of securities transactions, under the oversight of the Market Regulation Division.

These measures result in better regulation, reduced Commission expense, more efficient markets and improved investor protection. Self-regulation of investment companies is also under study.

Legislative Proposals: In order to better serve investors, depositors and policyholders, the Commission has proposed a task force under Vice President Bush to simplify the regulatory structure of the financial service industries, including regulation by functional activities instead of outmoded industry classifications, consolidation of related regulatory bodies and simplification and rationalization of the regulations within and between regulatory agencies.

Last December, the SEC reached on Accord with the Commodity Futures Trading Commission, which resolved a seven-year turf battle that had blocked both agencies from authorizing new financial products for which there is great public demand. The President recently signed the enabling legislation and trading has commenced in Treasury and GNMA options -- which will facilitate government and mortgage financings. These instruments have been endorsed by the Treasury, the Federal Reserve Board, and the housing, securities and banking industries. The Commission has also authorized trading in foreign currency options, which will facilitate international trade by reducing the cost of hedging foreign currency fluctuations. Trading will commence in these options in December.

Last November, the Commission proposed repeal of the Public Utility Holding Company Act which it administers. The utility industry and the Administration have endorsed repeal. Hearings have been held in the House and Senate. The basic objective of the Act -- the dismantlement of the multi-tiered electric and gas holding companies -- was accomplished 20 years ago. And yet, under this Act, major utility systems -- which generate 20% of the nation's electricity and distribute 8% of our natural gas -- still have to obtain prior SEC approval of their merger, acquisition, financing and geographical expansion plans, as well as their intra-system transactions. More important, the Act also inhibits these activities by all other electric and gas utilities -- for fear of becoming subject to the Act. This is the only area in which corporations are required to obtain prior SEC approval of such decisions. If the Act is repealed, these utilities will continue to be subject to the SEC's reporting and registration requirements, as well as pervasive rate and other regulation by the Federal Energy Regulatory Commission and the state utility commissions.

Finally, the Commission supported the Foreign Corrupt Practices Act amendments approved by the Senate, which are pending in the House. The amendments include proposed changes in the accounting and internal controls provisions, which will ease compliance burdens and eliminate ambiguities.

Senator ABDNOR. Thank you.

Mr. SMITH. A third activity which we have engaged in, with a special mandate given by the Congress to the Conference, is the Equal Access to Justice Act. And that generally is not thought of as a deregulatory effort, but I think it is a very significant deregulatory effort, because it helps deter unreasonable and unwarranted enforcement activities by Federal agencies. Under that act, as you know, if an agency engages in harassment in enforcement, and it's case is unreasonable and loses, then the legal expenses of the private party are taken out of the agency's budget. And I think it has been a very significant contributor to a better regulatory climate.

A fourth way, we work closely with the Senate Judiciary Committee—with Senator Laxalt's staff and Senator Leahy's staff—in helping on deregulatory efforts and regulatory reform efforts, and one of the Conference's recommendations, on the "race to the courthouse" was included in the regulatory reform bill which the Senate passed last year.

And a fifth way is by the general output of our recommendations, which go toward making the system more effective, and, therefore, less burdensome, and eliminating unnecessary redtape; our regulatory negotiation recommendation, I think, will contribute—and is beginning to contribute significantly—to making the regulatory process more reasonable.

Senator ABDNOR. Fine.

Anyone have any additional comments? If not, we appreciate your being here today, and your testimony, and, as I've told others, if we do come up with some additional questions, or if some of the other members of the committee have any, we will submit them to you in writing.

Mr. SMITH. Thank you very much, Senator.

Senator ABDNOR. Thank you, very, very much.

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

STATEMENT OF S. KENNETH HOWARD, EXECUTIVE DIRECTOR

ACCOMPANIED BY FRANKLIN A. STEINKO, BUDGET AND MANAGEMENT OFFICER

INTRODUCTION OF ASSOCIATES

Senator Abdnor. Oui next witness is Mr. Kenneth Howard, Executive Director of the Advisory Commission on Intergovernmental Relations. We've touched a little on intergovernmental relations here, Mr. Howard. I certainly want to hear from you, and your statement, too, will, like the others, be made a part of the record in its entirety.

Go ahead and summarize or proceed any way you care to.

Mr. Howard. Thank you, very much, Mr. Chairman.

I would like to introduce Lin Steinko who is here with me. He is the Budget and Management Officer for the Advisory Commission on Intergovernmental Relations.

Senator Abdnor. Fine.

COMMISSION COMPOSITION

Mr. Howard. The Commission is the only legally established forum in the country for debating intergovernmental issues. It includes all three levels of government, both major political parties, and members of both the legislative and executive branches of Government.

At the Federal level it includes three people of Cabinet rank, three members of the House, and three members of the Senate. In this body, the Commission members are Senators Roth, Durenberger, and Sasser.

They are joined by four Governors and three State legislators, four mayors and three elected county officers, as well as three citizen members.

The budget which is before you is very much a "hold the line" one, doing what we are now doing. I do not believe that the dollar changes in it are of particular importance to you.

The written testimony deals with the more important question: What are we doing with the $2 million you give us, not just with the increase? The testimony has in it the projects on which we're working.

There is one change, in our style of operation that is reflected in the budget proposal. I hope you will appreciate its significance.

FIELD HEARINGS

We are deliberately trying to take the Commission and its work into the field. We held a Commission meeting last month in Charleston, S.C. That's the first time the Commission has met outside of Washington in 6½ years. The change was actively applauded by everybody who was involved in it, and it is something our oversight committees have been asking us to do for quite some time. I'm very pleased to report that in this, my first year as Executive Director, we have gotten that accomplished. I hope we will continue to do so.

Second, our new Chairman, Dr. Robert Hawkins, has a distinct interest in having the individual members of the Commission play a more active role in our work prior to that work coming before the full Commission, either through committees or through assignments given individual Commission members.

So, we're anticipating more involvement by individual members of the Commission.

Finally, if we accept that Federal grants are no longer the wave of the future, many of the issues in the intergovernmental scene are going to be State-local issues as contrasted with Federal-State-local issues. We expect to have to pay more attention to what's going on at the State and local levels.

Our efforts to make all three of these changes are imbedded in the budget. The money's there to do these things, but these changes in our operations are taking place within the overall appropriation totals that are changing very little.

I will be glad to respond to any questions, Mr. Chairman.

PREPARED STATEMENT

Senator ABDNOR. Thank you, Mr. Howard, for your statement.

[The statement follows:]

STATEMENT OF S. KENNETH HOWARD

This is my first appearance before this Committee since I became the Executive Director of the Advisory Commission on Intergovernmental Relations last May. It has been an eventful year both for me personally and for everyone connected with the Commission. In addition to a new Executive Director, a new Chairman was named last June, 10 seats on the Commission have changed hands, and the Commission has just finished a major activity: determining the projects and issues on which it wishes to work for the next 12 to 18 months.

Despite all these changes, our budget reflects few fiscal changes. In short, we are doing what we can to the best of our abilities within the resources provided. Although the interest in New Federalism should make us a growth industry, we seek essentially no increases except those required to meet cost changes mandated by either Congress or the General Services Administration. These mandated increases amount to $136,000 in FY 84, but our proposed budget for that year rises by only $120,000 over the appropriation provided in the continuing resolution for FY 83. We are absorbing the $16,000 difference out of current operations.

Far more important than these modest changes is the question: what are we doing to justify our requested $2 million appropriation? The Commission's tradition since its founding in 1959 has been to answer that question in two words: a lot. We believe we are still operating in that tradition today and that we will continue to do so in FY 84.

ACIR is the only statutorily-based forum in the country which brings together elected representatives from all levels of government, both the legislative and executive branches, and both major political parties, for the purpose of discussing major intergovernmental issues. The Commission is strictly advisory, as the first word in its title reflects. Nonetheless, it has shown how good research and analysis can be combined with sharp political debate and leadership to produce recommendations of sufficient merit that others will implement them. For example, two issues currently before this Congress were discussed and recommended by the Commission long before they became hot topics in these halls: General Revenue Sharing and personal income tax indexation.

We are expected to have an impact well beyond Washington, DC -- and we do. At least a dozen states have formal ACIR's themselves and we work closely with these organizations in any way we can. There are formal intergovernmental bodies of one sort or another in nearly half of the states, and we have regular contact with them as well. We provide data, model legislation, general information and advice in addition to our publications on topics of concern to these governments, such as home rule, legislative oversight of federal aid funds, block grant distribution practices, metropolitan reorganizations and property tax reform.

Our research work does not start and stop within a given fiscal year. Let me indicate, therefore, some of the work we expect to finish during FY 83 and note the directions we are headed in FY 84. Much of the latter work will start this year. We have already published two information bulletins this fiscal year. One discussed state mandates on local governments and the other was on the implications of Executive Order 12372, which changes the intergovernmental coordination processes used in reviewing grant proposals and replaces the so-called A-95 process. We publish a quarterly magazine, Intergovernmental Perspective, the last issue of which was an annual report on federalism activities in 1982, certainly a vintage year for active discussion of such issues. We will again publish our short annual public opinion poll on government and taxes. Most importantly, we have at the printers right now our annual issue of Significant Features of Fiscal Federalism, the most cited statistical publication in this field in the country.

Within this fiscal year we will complete and publish two major studies. One is on federal regulation of state and local governments. It analyzes the pervasive nature and implications of such things as cross-cutting requirements, crossover sanctions, and many other forms of national regulation of state and local governments through the grant process and the commerce power. The second study, which will be the focus of the Commission's June meeting, discusses jails as an intergovernmental problem. The Commission will hold public hearings on this study's findings, conclusions and recommendations prior to debating its own position on these matters. Finally, we will update our measure of the relative tax capacity of each of the 50 states using what is called the Representative Tax System methodology.

Interest in this approach has heightened as some members of Congress contemplate making changes in the formlula that is used to distribute General Revenue Sharing funds.

Let me turn now to those projects that will be initiated this fiscal year, as recently directed by the Commission, but will continue into FY 84. When we held a series of meetings with persons active in the intergovernmental field last August and September as part of our effort to make sure we selected the most useful topics for our work, one stood out from all the others: tax overlapping. Subsequent Congressional actions in the cigarette and gasoline tax fields only underscore the significance of this issue. We are convinced that tax overlapping is inevitable in a federal system. The challenge lies in finding ways to enhance the treasuries of one level without doing undue harm to the fiscal welfare of the other partners in the federalism. For example, federal personal income tax changes that affect the deductibility of state and local taxes or the exemption of interest income on state and local bonds, might be done in such a way that they could seriously impair the ability of state and local governments to finance needed improvements in their physical asset bases. We are also looking at the so-called public physical infrastructure issue generally, not just the tax policy implications, and expect to report to the Commission on these matters next December. At the local level, we are inquiring into issues of local revenue diversification and expect to update work we did a decade ago on city financial emergencies.

The Commission has decided to initiate a study unlike any ACIR has done before. Federalism requires a constant balancing act, but the Commission believes there has been a profound shift in that balance toward the national level in recent decades, especially in domestic programs. Believing that a strong federalism requires strong partners at all levels, the Commission is wrestling with how the system might be rebalanced. Believing that single-interest politics have a great deal to do with the willingness of the national government to go into more and more specific domestic areas, the Commission has directed the staff to undertake a study of political parties to appraise what has happened to them as mediating and integrative forces in our politics. The Commission has also asked us to assemble some creative thinkers to do some speculative brain-storming about the effects various Constitutional changes might have on keeping our federalism alive and vital. This totally exploratory effort may or may not result in more formal research comparable to that being undertaken on political parties.

Next fiscal year we will complete the final phase of a three-year study on state aid to distressed communities. This HUD-supported grant project will not only analyze the trends that emerge from three year's of observations, but will develop pertinent model state legislation and provide specific information about innnovative approaches that have been undertaken.

At the local level we are updating work we did some years ago on the ways in which local governments use service agreements, transfers of functions and other approaches to provide local services more economically. We are also using a grant from the Urban Mass Transit Administration to study the ways in which metropolitan-area transit systems are adapting to a variety of current fiscal, servicing and jurisdictional pressures.

The timing and progress on all of this work will depend on the extent to which we are asked by any of the concerned parties to provide information and analyses on General Revenue Sharing and New Federalism proposals, especially allocation formulas and revenue turnbacks. Such requests are welcome and we will reply to them to the best of our ability because the Commission has directed us to assign them a high priority. If those requests do not come in significant numbers, we still would have a full agenda through FY 84; if they do, some of the assumptions about our work program underlying the budget request before you will have to be modified.

There is one aspect of Commission operations that does have a direct bearing on the funds we are seeking in FY 84. The Commission met in Charleston, South Carolina last month, holding its first meeting outside Washington in over six years. That meeting was tremendously successful and it is the opinion of virtually all participants that we should meet more regularly outside the District of Columbia. The budget assumes that at least once a year the Commission will meet in some other part of the country, a practice Congressional oversight committees have been urging on us since the mid-sixties. It also assumes that individual Commission members will be more active participants in our work between meetings. Finally, the decline in federal domestic grants should elevate state-local issues to a far more prominent place on the intergovernmental agenda. If that forecast proves correct, the staff will need to spend more time on the road than has been true in the recent past. The proposed budget reflects these modifications in our style of operation.

Let me end by noting a few ways in which we are trying to make our operation more productive. We have redone our telephone system to make it more useful and helpful; we have reduced the space we occupy; and we have computerized the compilation and display of much of the material in Significant Features, our statistical bible. But the bulk of our money goes to personnel and here too we have made changes. As vacancies occur and research emphases move from one topic to another, we are reallocating positions to meet the emerging needs. This reallocation practice begins right at the top - I have eliminated the position of the executive secretary to the Executive Director and have reassigned those functions and responsibilities among existing positions.

In conclusion, I believe the Commission has gone through a series of changes but that a clear direction is emerging and that we can continue to deliver the kind of quality product for which the Commission has become known. Your past understanding and fiscal support have obviously been crucial ingredients in accumulating this record. We hope you will continue both as we continue to strive to merit them.

NUMBER OF MEETINGS PER YEAR

Senator ABDNOR. How many meetings do you have a year?

Mr. HOWARD. Four, on the average. Sometimes it's only three, but generally we try to meet quarterly.

Senator ABDNOR. The appointed members from the House and Senate, do they get to most of your meetings?

Mr. HOWARD. Their attendance records are no better and no worse than those of most of the other members. We have some who are very loyal and make almost all the meetings. We have some who have made virtually none of the meetings. But you could say that about almost any of the categories just as well.

CURRENT PROJECTS

Senator ABDNOR. I'm sure you're involved in a great many things. What are some of your projects you're working on?

Mr. HOWARD. We're completing a major study right now on what we call the deregulation of governments, meaning essentially the way Federal grants have placed regulations on State and local governments. These may be cross-cutting requirements or cross over sanctions, or certain standards that have to be met. We've inventoried the extent to which such regulation occurs, and it's much wider than I think most people realize.

We're completing another study on jails as an intergovernmental problem. Most pertinent, probably, to the interests of this committee in another role, is the work we're doing now on tax overlapping and how you can strengthen the fisc or treasuries of the national, State, and local governments without jeopardizing the fiscal health of the other levels in this Federal partnership.

Senator ABDNOR. That's quite a challenge, I'm sure.

Mr. HOWARD. Indeed.

Senator ABDNOR. You do projects for States, do you not? Or do you?

Mr. HOWARD. No; typically we do not undertake a project for a specific government. We normally would deal with an issue that is of concern to several governments, and normally to several levels of government.

We have, on occasion, been directed to undertake things by Congress, or by the White House. We respond to those directives, but those are usually questions of national significance, not one tied to just a single government.

We have not, to the best of my knowledge, ever undertaken a study only for the county of Los Angeles, or the State of Maryland, or anything of that sort.

Normally our work is broader than that.

Senator ABDNOR. We don't have a list of your Commission's membership. You could give us a list of those, could you?

Mr. HOWARD. Yes; readily. They're on the back of our publication, a copy of which we will give you.

Senator ABDNOR. Fine.

[The information follows:]

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

	Appointment date	Expiration date
Private citizens:		
Wyatt B. Durrette, Jr., Fairfax, Va., (Republican)	3/24/82	3/23/84
James S. Dwight, Jr., Washington, D.C. (Republican)	3/7/83	3/6/85
Robert B. Hawkins, Jr., chairman, Sacramento, Calif. (Republican)	6/11/81	6/10/83
Members of the U.S. Senate:		
David Durenberger, Minnesota (Republican)	3/26/81	3/25/83
William V. Roth, Delaware (Republican)	3/26/81	3/25/83
James R. Sasser, Tennessee (Democrat)	3/23/81	3/22/83
Members of the U.S. House of Representatives:		
Barney Frank, Massachusetts (Democrat)	3/3/83	3/2/85
Robert S. Walker, Pennsylvania (Republican)	3/3/83	3/2/85
Theodore S. Weiss, New York (Democrat)	3/3/83	3/2/85
Officers of the executive branch, Federal Government:		
Samuel R. Pierce, Jr., Secretary of the Department of Housing and urban Development (Republican)	4/8/81	4/7/83
James G. Watt, Secretary of the Department of the Interior (Republican)	4/8/81	4/7/83
Richard S. Williamson, Assistant to the President for Intergovernmental Affairs (Republican)	4/8/81	4/7/83
Governors:		
Lamar Alexander, vice chairman, Tennessee (Republican)	6/11/81	6/10/83
Bruce E. Babbitt, Arizona (Democrat)	1/17/81	1/16/83
Richard A. Snelling, Vermont (Republican)	7/10/80	7/9/82
Vacancy		
Mayors:		
Margaret T. Hance, Phoenix, Ariz. (Republican)	9/15/81	9/14/83
Richard G. Hatcher, Gary, Ind. (Democrat)	1/17/81	1/16/83
James Inhofe, Tulsa, Okla. (Republican)	9/15/81	9/14/83
Joseph P. Riley, Jr., Charleston, S.C. (Democrat)	9/15/81	9/14/83
State legislators:		
Ross O. Doyen, president, Kansas State Senate (Republican)	9/15/81	9/14/83
David E. Nething, majority leader, North Dakota Sate Senate (Republican)	7/21/82	7/20/84
Vacancy		
Elected county officials:		
Gilbert Barrett, chairman of the board, Dougherty County, Ga. (Democrat)	11/24/82	11/23/84
William J. Murphy, county executive, Rensselaer County, N.Y. (Republican)	11/24/82	11/23/84
Peter Schabarum, Los Angeles County, Calif. Board of Supervisors (Republican)	9/15/81	9/14/83

SELECTION OF MEMBERSHIP

Senator ABDNOR. Your membership is selected how?

Mr. HOWARD. The members are all appointed by the President, with the exception of the members of the House and the Senate who are appointed by the presiding officers, through the appropriate leadership.

In the case of the President's appointments, except for the three citizen members whom he can choose in any way he sees fit, the other members—the Governors, the State legislators, the county officers the mayors and so on—are chosen by the President from a list of nominees that is submitted to him by the appropriate interest group, the National Governors Association, National League of Cities, or what have you.

The President chooses off the list that comes from each of those associations.

SLUC PAYMENTS

Senator ABDNOR. One last question. How is the Commission going to be affected by the SLUC charge in 1984?

Mr. HOWARD. If you look at our budget, what you will find is that the total SLUC cost in absolute dollars from the current fiscal year to the next fiscal year declines by $19,000. This decline reflects user continuing efforts to restrain costs and results for our reducing the space we occupy.

Senator ABDNOR. Well, I think that's all we have. We appreciate your appearance here today, and if we have any other questions, Mr. Howard, we will submit them in writing. As I say, some of the other members of the committee may come up with a question.

Mr. HOWARD. I understand, Mr. Chairman. And we will be glad to reply. Thank you for giving us this opportunity.

Senator ABDNOR. Thank you.

I'm happy to welcome to the committee a couple of good South Dakota State senators.

U.S. TAX COURT

STATEMEMENT OF JUDGE THEODORE TANNENWALD, JR., CHIEF JUDGE

ACCOMPANIED BY:

JUDGE HOWARD A. DAWSON, JR., U.S. TAX COURT
CHARLES S. CASAZZA, CLERK OF THE COURT
WASHINGTON B. BOWIE, BUDGET AND ACCOUNTING OFFICER
D. BRUCE SMOKE, ASSISTANT BUDGET AND ACCOUNTING OFFICER

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. Our last witness will be our old friend, Judge Theodore Tannenwald, Chief Judge of the U.S. Tax Court.

Judge, we're happy to have you with us today.

Judge TANNENWALD. Mr. Chairman, I'm happy to be with you and to see you again.

I have some colleagues with me.

Senator ABDNOR. I see. Well, we would be happy to have you introduce them to the committee. You may proceed in any fashion you care to.

Judge TANNENWALD. On my left is Judge Howard A. Dawson, Jr., who has been on the court for longer than I have, many years, and he will succeed me as Chief Judge on the first of July.

Judge Dawson is no stranger to this committee. He has been a Chief Judge. I am stepping down on June 30, primarily for medical reasons, which I can tell you fortunately are not serious, but are sufficient to cause me to decline to serve any further as Chief Judge.

Senator ABDNOR. We're sorry to hear that, judge. We know of the great record you have compiled over the years.

Judge TANNENWALD. Well, I hope to stay around the court.

Senator ABDNOR. I know we'll hear often and frequently from you. Judge Dawson, I congratulate you. I know we will be seeing a lot more of you in the months and days ahead.

Judge TANNENWALD. I'm not sure he should get congratulations, Mr. Chairman. He maybe ought to get condolances.

I also have Mr. Casazza, clerk of the court, whom you know, and also with me are Mr. Bowie and Mr. Smoke, the Budget and Accounting Officer and the Assistant Budget and Accounting Officer.

Senator ABDNOR. You may proceed, then.

SUMMARY STATEMENT

Judge TANNENWALD. Mr. Chairman, I will follow the example of the prior witnesses, and take just a minute or two to summarize the main points of what's already in my statement, which I understand from you will be made part of the record.

I would like to emphasize that except for $168,000, which we have added for new additional trial sessions, all of the $2,354,000 increase is in what I would call nondiscretionary categories: pay adjustments, rent increase from GSA, and the inflation factor which affects, particularly, our cost of travel.

The second thing that I think you would be interested in, as we are, is that we do have a very heavy caseload. It has increased since last year, but the level of increase is not as great as it was during the prior fiscal year. And so far in fiscal year 1983, there is a further leveling off, still an increase, but not very much.

But it's a little too early to tell what the total figure will be for the fiscal year, because June and July are usually very heavy months for the filing of petitions.

There are a variety of factors at work, which both influence an increase in our caseload, and also a decrease, and most of them are set forth in my statement.

We have had a heavy caseload due to the shelter cases that have been filed, but many of them are now getting settled. We have a heavy number of cases filed by what are generally described as tax protesters, ranging from those who assert frivolous constitutional defenses, or assertions, to those who are just dissatisfied with the system.

On the other hand, there is an increase in the interest rate, which will tend, I think, to reduce the number of cases filed. There has been, apparently, a better and more flexible settlement policy by the Internal Revenue Service, which is also causing the caseload to go down, and I should note for your committee's benefit that we don't have any control over the number of cases that come to us. It's up to the Service in issuing what are called 90 day letters, and then the taxpayers deciding whether to file petitions.

Within our own family we've done several things to facilitate the handling of our caseload, all of which are set forth in my statement, and I'll be glad to answer any further questions.

VACANCIES

We do have one problem, namely, that we have had over the last 2 or 3 years, vacancies. We have not operated at full strength, and we are now functioning with two less than the normal number of judges, because there are two vacancies awaiting nomination by the President.

I think with that I'll close, Mr. Chairman, unless Judge Dawson would like to add anything.

Senator **Abdnor**. Judge, we welcome you to the committee. If you have an additional statement?

ADDITIONAL SPECIAL TRIAL JUDGES

Judge **Dawson**. I'll add one thing, Mr. Chairman, to Judge Tannenwald's statement. We have just recently selected three new special trial judges who will help us out in handling the small tax cases. And they are to come aboard, two in June and one in late August or early September.

These individuals are Peter Panuthos from Boston, Helen Buckley, she's from Iowa, and Joan Pate from Louisville, Ky.

One has been an assistant district counsel for the Internal Revenue Service. One has been a tax professor at Temple University, and the other has been a tax practitioner in Kentucky.

Senator ABDNOR. Fine. That ought to help relieve some of the load.

Judge DAWSON. I think it will. They are very well qualified.

PREPARED STATEMENT

Senator ABDNOR. Well, thank you for your remarks, judge. As I said your full statement will be made a part of the record.

[The statement follows:]

STATEMENT OF CHIEF JUDGE THEODORE TANNENWALD, JR.

Mr. Chairman and members of the Committee, I appreciate this opportunity to appear before the Committee and present the United States Tax Court's appropriation request for fiscal year 1984.

The Tax Court's fiscal year 1984 budget request is for $16,871,000 and 271 permanent positions. This is an increase of $2,354,000 over the authorization for fiscal year 1983, including the $517,000 civilian pay raise supplemental now pending before Congress.

The Court's fiscal year 1984 budget request reflects our judgment as to the Court's needs for handling an increasing backlog of pending cases. Specific details regarding this request are contained in the accompanying justification book, and I am available to answer questions on that material.

First, I would like to present, if I may, a brief description of our needs. In making this request for additional funds for fiscal year 1984, we are fully aware of the strenuous efforts the Congress and the President are making to curtail Government expenditures. We do not question the wisdom of these efforts. In fact, we have done our best to support these efforts in our budget request. Indeed, our requested increase reflects (with one exception of $168,000 to cover 52 additional trial weeks) only items as to which we have no choice because of larger expenditures attributable to mandatory adjustments and inflation. No increase in personnel is involved. However, the Tax Court is faced with an increasing backlog of pending cases which, in the public interest, must receive attention.

THE COURT'S WORKLOAD

Initially, it should be emphasized that the Court handles appoximately 90% of all substantive tax litigation exclusive of collection actions. We are the only place where a taxpayer can have his day in court without prior payment when the Government seeks additional taxes. Proceedings in the Court are triggered by the issuance of a deficiency notice by the Commissioner of Internal Revenue -- a procedure over which we have no control. The growing dissatisfaction of citizens with the tax system and the pressure upon them due to the current economic situation have contributed to the issuance of such notices in larger numbers and the filing of more petitions in recent years.

In fiscal 1970, 7,390 new cases were filed. In fiscal year 1975, the number of new cases filed was 11,213. In fiscal year 1982, 30,776 new cases were filed. Thus, in the last twelve years, the number of new cases has quadrupled, and in the last seven years it has almost tripled. The inventory of pending cases rose for 12,040 at the end of fiscal year 1970 to 16,448 as the end of 1975, which was a 37% increase. At the end of fiscal year 1982, the inventory of pending cases stood at 52,773, a 320% increase, or more than three times the pending caseload of 1975.

For fiscal year 1982, the increase in filings was 4% more than for fiscal year 1981. This 4% increase seems to be holding for fiscal year 1983 as well. At this time, this increase is a very conservative estimate.

You will note that the rate of increase in our caseload has leveled off somewhat. For fiscal 1981, the gap between the number of petitions filed and the number of cases closed was 11,056, whereas for fiscal 1982, the gap was only 6,852. For the first quarter of fiscal 1983, we actually closed about 500 more cases than the number of petitions filed. This leveling off has been due to the effective handling of small tax cases, about which I will have more to say later on in this statement. I hasten to add, however, that it cannot be assumed that this trend will continue, because of anticipated increases in the number of shelter and tax protester cases and the litigation likely to result from the newly enacted provisions of the Internal Revenue Code, for example, those provisions dealing with such areas as the underground economy and provisions relating to increased penalties for fraud, negligence, and abusive use of tax shelters.

THE COURT'S WORK PRODUCTION

In a continuing effort to carry the burgeoning backlog of pending cases, the Court as a whole has stepped up its production. The number of opinions written by the Court rose from 573 in 1970 to 796 in 1975 and 2,016 in 1982. The number of cases closed by the Court rose from 6,610 in fiscal year 1970 to 8,616 in fiscal year 1975 and 24,204 in fiscal year 1982. To a large degree, the increase in the number of cases closed reflects what appears to be a more flexible settlement policy of the Internal Revenue Service.

Of the 796 opinions written in fiscal year 1975, 271 were written in the small tax cases and 525 in regular cases. Of the 2,016 opinions produced in fiscal year 1982, 1,099 were written in small tax cases and 917 in regular cases.

SMALL TAX CASE PROCEDURES

Under the small tax case procedures, which are optional with the taxpayer, trials are conducted as informally and promptly as possible; the rules of evidence are relaxed; neither party is required to file a brief; and neither party may appeal. The jurisdictional limit for the small tax cases is now $5,000 for each taxable period.

The Court has ten Special Trial Judges assigned to handle the small tax case work. They are also assigned periodically certain types of regular cases, but in such cases their findings and opinion are reviewed and adopted or modified by a presidentially appointed Judge.

The number of cases in which the small tax case election has been made has increased steadily since the provisions were adopted. In fiscal year 1971, 1,349 small tax cases were filed, in fiscal year 1975, 3,290 small tax cases were filed, and in fiscal year 1982, 9,912 small tax cases were filed.

The small tax case procedures, as conceived by Congress, contemplated that the cases would be heard and disposed of promptly. Expeditious handling of these small cases helps maintain confidence in the efficiency and fairness of the revenue and judicial systems. Delays not only tend to undermine such confidence but defer the availability to the Treasury of the revenue ultimately found to be owed. This is also true with respect to regular cases.

ACTIONS TO REDUCE BACKLOG

In 1981, the Congress authorized an increase in the number of Judges of the Tax Court from 16 to 19 -- the first increase since 1926. These additional judgeships were not filled until late in the winter of 1982, so the full impact of their handling of cases has only recently been felt. I should, however, note that, due to a death, a resignation, and two retirements, the Court has yet to achieve its full complement and, in fact, there are two vacancies at the present time.

In the fiscal year 1982 budget, the Court requested and received approval for three additional Special Trial Judges. The fiscal year 1983 budget requested one additional Special Trial Judge. As a result of budgetary problems during most of fiscal 1982 and the uncertainty until December 1982 of the fiscal authority for fiscal 1983, these positions were not filled. We have interviewed a number of candidates for these four positions and we have now selected three new Special Trial Judges who will be on board in the very near future. Our ability to move ahead to fill all four positions is constrained by the lack of adequate space in our courthouse, due to an increasing number of Judges who have retired and will retire but who will continue to serve as Senior Judges.

Congress has also taken action to alleviate the pending case load by granting the Judges and Special Trial Judges of the Tax Court authority to render bench decisions. This authority will have its greatest impact on small tax cases which are less complex. Rules setting forth the standards for utilizing this authority have been published and were effective on March 1, 1983. Other actions on the part of Congress which should help reduce our case load have included increasing the interest rates charged on tax deficiencies, raising the filing fee for regular cases, raising the penalty for frivolous proceedings, partnership audit provisions, and the reduction in overall tax rates. At this time, it is unclear what the full impact will be on the pending case load as a result of these changes. Fiscal year 1983 will be the first year for all of the above changes to be in effect.

In fiscal year 1984, as a result of legislation enacted in October 1982, the Court will for the first time face the problems involved in awarding litigation costs to taxpayers who prevail in cases brought on and after March 1, 1983. Rules governing these awards have also been published. The number of cases that will be affected is unknown at this time. It seems clear, however, that the problems involved in the awarding of such costs will prolong the period of litigation in a substantial number of cases and will add to the workload of the Court.

The Court itself has taken a variety of actions to facilitate the handling of its case load, including the following:

(a) Development of summary procedures for the disposition of tax protester cases, a process that will be facilitated by the new authority to render bench decisions.

We now have approximately 5,000 such cases pending. They are not hard to dispose of in terms of the legal issues involved, but they are time-consuming and promise to become even more so from a management standpoint.

(b) The assignment at an early date of multi-party shelter cases and other cases involving complex trial problems in order to provide continuity of case management, particularly in terms of consolidation of cases having common issues. We now have about 16,000 such cases pending, and it appears likely that there will be a substantial number of additional cases in the next few years. In this connection, I note that in fiscal 1983, we received appropriations for three senior attorneys, who have been employed and assigned to assist Judges in handling complex cases, and funds for such attorneys are included in our fiscal 1984 request.

(c) Scheduling all trial sessions for a two-week period instead of the one-week period that had previously been used for some sessions. This procedure enables us to schedule more cases for trial, which we had already been doing for the traditional two-week sessions, and we expect further to increase the number of cases scheduled. Such actions have the effect of encouraging settlements and also enable the Judges to remain in a given location for a substantial number of trials, thereby reducing travel costs.

(d) Sending a Judge who conducts a trial session in a given location, usually one of the large cities, back for a trial session in the next term (or the term following the next term). Such Judge may continue cases from the first trial session only to the next one which he will conduct. We expect to add to the number of cities where back-to-back sessions will be scheduled.

(e) Broadening our discovery rules to permit limited third-party discovery, which we expect will be particularly helpful in facilitating the disposition of shelter cases by way of settlement or trial.

(f) Encouraging the Judges to increase their disposition of cases by opinion or otherwise. To the extent that this results in a greater number of cases which must be reviewed by the Chief Judge (the number is now approximately 1,100 annually), this task has been facilitated by the provision of funds in fiscal 1983 for an additional assistant, who has been employed and who also has been available to do much-needed work on the Court's Rules and a number of necessary legislative changes. Funds for this person are included in our fiscal 1984 request.

CONCLUSION

During fiscal year 1982, the amount of deficiencies ultimately determined by the Court to be owing by taxpayers was $318,313,860, or about 19 times the amount of our fiscal 1984 budget request. The 52,773 cases pending in the Tax Court at the end of fiscal year 1982 involved deficiencies determined by the Internal Revenue Service in the amount of $7,239,329,670. To the extent that it is owed, the revenue ultimately involved in these cases cannot be collected until they have been heard and decided or otherwise disposed of. Delays in closing these cases deprive the Treasury of revenues which are due. To the extent that the determined tax liabilities are not in fact owed, they create financial uncertainties for corporations, businessmen, and individuals in making business, investment, and other decisions.

Our fiscal 1984 increase of $2,354,000 is composed of the following increases, which, as I indicated at the beginning of this statement, is due almost exlusively to mandatory requirements and inflation and involve no increase in personnel.

Pay adjustment for promotions, within-grade increases, and associated benefits	$ 212,000
Annualization of fiscal year 1983 request	$ 413,000
Increase in rent payments to GSA	$1,238,000
Increase in travel, transportation, court reporting, printing, communications, and contracting services to meet the cost of inflation	$ 323,000
Increase in expenses for travel, court reporting, and transportation because of 51 additional trial weeks	$ 168,000

In our judgment, making the requested funds available to the Court will serve the fiscal objectives of the Congress and the President.

Mr. Chairman, I will be pleased to answer any questions the Subcommittee may have.

Biography of Judge Howard A. Dawson, Jr.

HOWARD A. DAWSON, JR., judge--Arkansas--born October 23, 1922, Okolona, Ark., son of Howard A. Dawson (rural educator) and Mamie Watson Dawson (teacher); married Marianne Atherholt in 1946; two daughters, Amy and Suzanne; graduated from Woodrow Wilson High School, Washington, D.C., in 1940; University of North Carolina, B.S. in business administration, 1946; George Washington University Law School, J.D. with honors, 1949; president, Case Club; secretary-treasurer, Student Bar Association; private practice of law, Washington, D.C., 1949-50; served with the U.S. Treasury Department, Internal Revenue Service, as follows: Attorney, Civil Division, Office of Chief Counsel, 1950-53; Civil Advisory Counsel, Atlanta District, 1953-57; Regional Counsel, Atlanta Region, 1958; Personal Assistant to Chief Counsel, December 1, 1958 to June 1, 1959; and Assistant Chief Counsel (Administration), June 1, 1959 to August 19, 1962; military service: U.S. Army Finance Corps, 1942-45; served 2 years in European theater; Captain, Finance Corps, U.S. Army Reserve; member of District of Columbia Bar, Georgia Bar, American Bar Association (Section of Taxation), Federal Bar Association, National Lawyers Club, Delta Theta Phi Legal Fraternity, George Washington University Law Alumni Association; appointed on August 21, 1962, to the United States Tax Court for term expiring June 1, 1970, to succeed Judge Bolon B. Turner, who became a senior judge; reappointed on May 21, 1970, to the United States Tax Court for a 15-year term expiring June 1, 1985; elected Chief Judge for a 2-year term beginning July 1, 1973; reelected Chief Judge for a 2-year term beginning July 1, 1975; again elected Chief Judge for a 2-year term beginning July 1, 1983; residence: 7408 Nevis Road, Bethesda, Md.

WORKLOAD

Senator ABDNOR. I read in the report that you closed 24,000 cases?

Judge TANNENWALD. Last fiscal year, that's correct.

Senator ABDNOR. That's quite a load.

But you say you are holding your own on these caseloads?

Judge TANNENWALD. Well, we're holding our own in the sense that the gap between petitions filed and cases closed is not as great. Eleven thousand in fiscal year 1981, and down to 6,800 in fiscal year 1982. And this fiscal year, so far, it's been about even. But as I pointed out to you, we have a heavy period of filing of petitions in June and July, and while we expect that the gap will decrease still further, there will be a net increase in our caseload.

IRS COLLECTIONS

Senator ABDNOR. Well, IRS is placing more emphasis on collections now. Does that have quite an effect on your caseload?

Judge TANNENWALD. No; I believe what they're talking about is collections of amounts that have been assessed, either after our decision, or without any action by the taxpayer. This is the number of dollars that one way or another the taxpayers clearly owe, and the question is how best to get them.

SETTLEMENT OF CASES

Senator ABDNOR. Do you think more could be done to settle cases before they reach the trial stage?

Judge TANNENWALD. It's very hard for me to say whether more or less could be done.

Clearly, more is being done by the Service than was true a few years ago. I think that the present Chief Counsel, Mr. Gideon, has instituted what I describe as flexible settlement policies which has cleared out a lot of cases. And we're hoping that that will continue, and indeed, it's entirely possible that we have not seen the full impact of his policy yet.

We're hoping it will continue, because this is the only way, realistically, that we can cope with our caseload, is to get the number of cases down.

EFFECT OF INTEREST RATE

Senator ABDNOR. Do you think that the interest rate level has had much of an effect on the caseload?

Judge TANNENWALD. I really can't answer that, Mr. Chairman, except by hearsay. I am told that it has had an impact, particularly with taxpayers whom the Service claims owe a lot of money. It's had an impact in the shelter area. That is certainly true, because prior to the increase in the interest rate, and the compounding of the interest, the name of the game was time, and people just played along.

But now it's costing them money to play for time.

Senator ABDNOR. You've got to believe it has some effect.

Judge TANNENWALD. I'm quite sure it has, but I can't measure it for you, Mr. Chairman.

GSA RENT RATES

Senator ABDNOR. Let me ask you a little about the SLUC. Because it seems to affect all our agencies. I believe it accounts for one-half of the increase you're asking for.

Judge TANNENWALD. That is correct. A little better than one-half. It's over $1,200,000 plus, out $2,354,000.

Senator ABDNOR. What's your total SLUC payment?

Judge TANNENWALD. The total SLUC payment?

Senator ABDNOR. What kind of a figure are we talking about?

Judge TANNENWALD. It's $2,300,000.

Senator ABDNOR. That's a million?

Judge TANNENWALD. Well, it was in 1983.

Senator ABDNOR. I see.

Judge TANNENWALD. And it would go to $3,689,000 in 1984, unless the ceiling is still kept, and that increase, Mr. Chairman, would be devastating to our ability to function.

Senator ABDNOR. How much of an extra cost is it for the court here in Washington? Do you have any idea?

Judge TANNENWALD. How much?

Senator ABDNOR. Yes; how much of the extra dollars you will pay out in 1984 will be for the court here in Washington. Can you break that down?

Judge TANNENWALD. If I may turn to one of my colleagues.

Senator ABDNOR. We'd like to know, because we've got to look at SLUC from—do you have it?

Judge TANNENWALD. $2,190,000 is for Washington. That would be out of fiscal year 1984, which would leave, if the figures were not changed, roughly $1,500,000 for the field offices.

Senator ABDNOR. Well, thank you, judge. We may have some other questions.

FIELD COURTROOMS

You have a number of offices outside of Washington. Does that vary much from place to place?

Judge TANNENWALD. Does it vary?

Senator ABDNOR. Yes.

Judge TANNENWALD. Yes; there are some places where we do not have any, where we function with trying to get Federal District courtrooms, or State courtrooms. Over the years we have increased the number of offices or chambers and courtrooms that we have outside of Washington because we have run into increasing difficulty, and still do, in getting space from other courts.

And we have the problem of having to go to these cities in order to fulfill our statutory mandate to sit as close to the taxpayers as practicable, and we have to schedule these things, and very often we are unable to get a commitment from any of the Federal courts as to space at any particular given time.

Senator ABDNOR. You rent that on a yearly basis? Or are they there—how often will some of the offices be used for a time?

Judge TANNENWALD. It varies. In New York, our space is used almost constantly. In another place, it will be used only for a very small part of the year, but to the extent that we don't use it, that space is made available to other government agencies.

Senator ABDNOR. Fine.

Well, gentlemen, we thank you for appearing here today. If we have any additional questions, as I said, we will submit them in writing.

Judge TANNENWALD. Mr. Chairman, we would be glad to respond, and let me take this opportunity to thank you for all of the courtesy and attention and help that you and your subcommittee has given us.

Senator ABDNOR. It's been a pleasure to work with you.

Judge TANNENWALD. Thank you.

Senator ABDNOR. We'll look forward to working with you in the future even though you won't be the Chief Judge. We certainly value your experience, your judgement, and your testimony. Thank you.

Judge TANNENWALD. Thank you, very much, Senator.

Senator ABDNOR. Again, I welcome Senator and Mrs. Peterson from South Dakota and Senator Dunn. I see South Dakota is well represented here today.

SUBCOMMITTEE RECESS

Well, that concludes our hearings for today, and our next meeting is going to be tomorrow, Friday, April 8. We are going to be hearing testimony from the Department of the Treasury law enforcement agencies, and so until that time, we stand in recess until 10 a.m. tomorrow.

[Whereupon, at 4:08 p.m., Thursday, April 7, the subcommittee was recessed, to reconvene at 10 a.m., Friday, April 8.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1984

FRIDAY, APRIL 8, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:01 a.m., in room SD–138, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senators Abdnor and Mattingly.

DEPARTMENT OF THE TREASURY

U.S. CUSTOMS SERVICE

STATEMENT OF JOHN M. WALKER, JR., ASSISTANT SECRETARY (ENFORCEMENT AND OPERATIONS)

ACCOMPANIED BY:

WILLIAM von RAAB, COMMISSIONER OF CUSTOMS
ALFRED R. DeANGELUS, DEPUTY COMMISSIONER
GEORGE C. CORCORAN, JR., ASSISTANT COMMISSIONER (ENFORCEMENT)
WILLIAM H. RUSSELL, COMPTROLLER
C. WAYNE HAMILTON, DIRECTOR, BUDGET DIVISION
CORA P. BEEBE, ASSISTANT SECRETARY (ADMINISTRATION)
ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS, DEPARTMENT OF THE TREASURY

OPENING STATEMENT

Senator ABDNOR. The subcommittee will come to order.

Today we are going to hear testimony from the Department of the Treasury law enforcement agencies. They will testify in regard to their own agencies.

We want to welcome Secretary John Walker who is Assistant Secretary for Enforcement and Operations, and does a fine job.

Good to have you with us again, John. I am sure you know that this committee stands strongly behind you for law enforcement and we are proud of the service that the men and women of the Customs and Secret Service and BATF are doing. They are doing a great job. The more I have an opportunity to observe this service, the greater admiration I have for the jobs they do.

Today we are going to ask you to summarize your statements. I can assure everyone with statements that the entire statement will be made a part of the record. It will not be necessary to go into complete detail.

I also want to say that Senator DeConcini very much wanted to be at today's hearings but he was called out of town late yesterday and could not make it. He wanted me to extend his welcome to all of you and he requests that he be allowed to submit a number of questions to each agency to be answered for the record.

I see we have had a request from some of our members of the committee to have me ask questions. Some want them in writing. So we will do it both ways.

Again it is a pleasure to welcome you to the committee and, Mr. Secretary, you go ahead.

Mr. WALKER. I am pleased to appear before you today in support of the annual appropriation request of the U.S. Customs Service for fiscal year 1984. With me today are the Commissioner of Customs, William von Raab; key staff members of the U.S. Customs Service; Cora F. Beebe, Assistant Secretary for Administration; and Arthur D. Kallen, Director, Office of Budget and Program Analysis of the Department of the Treasury.

The fiscal year 1984 request for the U.S. Customs Service is $578,749,000 and 11,748 average positions. The fiscal year 1984 budget for the Customs Service reflects the policies of this administration to control Government spending, reduce crime, increase operating efficiency and effectiveness, and improve responsiveness to the private sector.

The Customs Service has one of the most diverse and challenging missions of our various Government agencies. It is a law enforcement agency with a critical role in enforcing significant laws involving trade, narcotics interdiction, and investigations of currency violations, fraud, and trade violations involving the illegal exportation of critical technology. It is also responsible for enforcing this Nation's complex tariff laws and regulations involving the collection of duties and processing of passengers and vast quantities of imported merchandise.

COMMERCIAL PROCESSING

In the commercial processing areas, during fiscal year 1984 the Customs Service plans to modernize and streamline through automation and centralization the processing of imported merchandise. These actions are necessary in order to meet a growing and ever changing workload. The U.S. Customs Service needs to build a modern, flexible Customs Service to operate effectively in this changing environment. Two significant planned management improvements for streamlining commercial processing are automated broker interface and centralized appraisement. Automated broker interface, part of the new automated commercial system, provides for the electronic interchange of data between the brokers and Customs. This will reduce manually prepared paperwork as well as the costly rehandling of transactions for both Customs and the trade community. This automated commercial system will allow us to achieve centralized appraisement without diminishing services at the affected ports. Centralized appraisement will result in uniform appraisement, greater efficiencies for Customs, and savings to the taxpayer. In addition, a number of other initiatives will be pursued to streamline further the entire cargo system.

Changes such as these and others will produce a modern and flexible Customs Service able to meet the changing demands of the future. They will also produce substantial savings.

AIR INTERDICTION

Enforcement remains a top priority within the Customs Service. Accordingly, I would like to highlight several areas for which we are requesting funding in support of Customs enforcement programs.

First, air interdiction. Drug smuggling by air continues to be a major problem. Over the past several years, Customs has developed an affective air interdiction strategy which has had good success in south Florida. The original budget request for an air module was $18.3 million. With the easing of conditions brought about by posse comitatus legislation, my office began working with several congressional committees, the Customs Service, and the Department of Defense regarding the possibility of borrowing military equipment such as fixed-wing aircraft, helicopters, and radar units which would provide Customs with an enhanced air interdiction capability. I then made a formal request to the Department of Defense on January 17, 1983, to loan military equipment to the Customs Service which would be both appropriate to Customs' air interdiction mission and in sufficient quantity to provide a national air interdiction capability in a relatively short period of time. If this request is approved by the Defense Department—and we have indications that it will be—the $18.3 million for the air module could then be reprogramed to fund the operating and maintenance expenses of the equipment which would be loaned to Customs by the Department of Defense and for the purchase or lease of additional interdiction equipment. This alternative is possible because of the easing of posse comitatus restrictions and the very positive support of congressional committees. I will keep the committee informed as soon as final arrangements are completed with the Defense Department.

PRESIDENTIAL DRUG TASK FORCES

The U.S. Customs Service, as well as the Bureau of Alcohol, Tobacco and Firearms, and the IRS, is participating in the 12 Presidential drug task forces announced last fall. The task forces constitute a coordinated Federal effort against drug trafficking and organized crime throughout the Nation. Total resources requested by Treasury for this initiative are 500 average positions and $32.9 million. A share of these resources has been included in the budget requests for each of these Bureaus. However, as a result of recent discussions with Justice and the final determination of cases to be initiated, some adjustments to the Bureaus' requests are necessary. The total resources within Treasury devoted to this initiative remain unchanged at 500 average positions and $32.9 million. I will provide the committee with these proposed adjustments.

Customs' principal role in these task forces will be to conduct financial investigations. Customs investigators, working in conjunction with those of IRS and with the Department of Justice, will direct their efforts against large-scale drug smuggling organizations and the money—laundering enterprises that support the drug trade. Through enforcement of the Bank Secrecy Act and the Internal Revenue Code, the financial components of the task forces will seek to disrupt these organizations through criminal enforcement actions and forfeitures. As Treasury's experience with south Florida's Operation Greenback has shown, financial investigations are of proven value in uncovering drug traffickers and money launderers and in depriving them of the cash they need to continue their illegal activities.

Mr. Chairman, at this time, I would like to make a part of the record the proposed adjustments within the limits of the 500 average positions that we would ask the committee to consider.

Senator ABDNOR. Without objection, they will be included.

PREPARED STATEMENT

Mr. WALKER. At the same time I would like to present to the committee, and not read at this time, but present for the record, a more lengthy statement explaining the organized crime program of the administration together with the task force guidelines which have been issued in connection with that program.

Senator ABDNOR. We will be happy to have it and it will be made a part of the record.

[The information follows:]

PRESIDENT'S ORGANIZED CRIME DRUG ENFORCEMENT PROGRAM—FISCAL YEAR 1984

[Dollars in thousands]

	Distribution in the 1984 congressional submission		Reallocation		Revised 1984 distribution	
	Average positions	Amount	Average positions	Amount	Average positions	Amount
U.S. Customs Service	225	$15,881	-25	-$1,447	200	$14,434
Internal Revenue Service	175	9.862	+45	+2,553	220	12,415
Alcohol, Tobacco, and Firearms	100	7,124	-20	-1,1006	80	6,018
Total	500	32,867			500	32,867

STATEMENT OF WILLIAM VON RAAB

Mr. Chairman and Members of the Committee, we appreciate this opportunity to appear before you today to present the U.S. Customs Service FY 1984 appropriation request of $578,749,000 and 11,748 direct average positions.

Customs FY 1984 appropriation request represents a net increase of $7,432,000 over the funds requested in FY 1983. Included in the FY 1984 appropriation request is $50,632,000 for program enhancements and other initiatives, primarily in the law enforcement area, $35,331,000 for increases necessary to maintain current operating levels, and savings of $78,531,000.

The substantial savings to be achieved in FY 1984, primarily in the area of commercial activities, will result in increased productivity, streamlined operations, organizational consolidation, abolition of duplicative activities, and the efficiencies to be gained from the conversion of labor intensive functions to more automated processing. In total, these actions will generate reductions of 2,000 positions.

MAJOR ACCOMPLISHMENTS

The Customs Service, as you probably know, was once the main source of federal monies and still continues today to collect significant revenues as well as assuming the responsibility for interdicting drugs and other contraband seeking illegal entry across our borders. Although the primary objective of the Tariff Act is the protection of American industry, revenue collections from its enforcement produced during FY 1982 a record level of $10.0 billion, an increase of almost 10 percent over the previous year and representing a return of more than $19 for every appropriated dollar spent by Customs in carrying out its responsibilities.

As usual, Customs also had a busy year processing the enormous volume of traffic and trade generated by the growing international economy. The dedicated Customs workforce cleared more than 300 million persons, 4.7 million merchandise entries, and more than $257 billion in cargo entering the country. In addition, more than 91 million vehicles, vessels, and aircraft were processed. Projections for FY 1984 indicate renewed growth and a continuing heavy workload in the future. By FY 1984, we anticipate an increase of 7.3 percent for total persons arriving, 7.1 percent for carriers, and 9.0 percent for cargo processing.

As I stated on previous occasions, my efforts will be directed toward strengthening Customs law enforcement programs. In FY 1982, many of these new programs were fully implemented and were producing excellent results. I am proud to report that in FY 1982 Customs seized $6.9 billion worth of street value drugs ($1.7 billion in domestic whole sale). In terms of quality, Customs seizures were 290 pounds of heroin; 11,150 pounds of cocaine, 58,277 pounds of hashish; and, in conjunction with other agencies, almost 4 million pounds of marijuana. I wish to call your attention to the tremendous jump in cocaine seizures from the 3,741 pounds in FY 1981. Many of our current enforcement efforts were directed to controlling this drug and I believe these results are a good indicator of Customs accomplishments.

Before discussing specific Customs programs and the enhancements for which we are requesting funding, I believe it is useful to fill you in on our current and future plans. My initial goal for Customs was to raise law enforcement to our highest priority. The nation faces two major and dangerous problems at its borders. The first is massive drug smuggling, which has been with us for at least a generation and is now about a $100 billion illegal industry. This past year, as part of the Vice President's South Florida Task Force, Customs successfully concentrated its enforcement efforts in the South Florida area where the major share of illegal narcotics activity is centered, and huge sums of drug-related currency enter and leave the country daily to finance this deadly international traffic.

Secondly, in line with the President's call for closer cooperation among Federal enforcement agencies, Customs has become the lead agency in the Administration's program to block the illegal transfer of critical and high-technology equipment to Eastern-bloc countries. Customs Operation EXODUS, a highly effective detection and investigative effort, is deployed at major ports throughout the country. In addition, Customs is developing new approaches for improving surveillances and the cargo inspections directed at uncovering these illegal equipment shipments.

While enforcement is a top priority, facilitation and reducing the burden of Government involvement in international trade are also goals of today's Customs Service. Facilitation of passengers and cargo is a high priority. We do not believe that every passenger, vehicle, piece of baggage, or cargo shipment must be searched. Since the vast majority of Customs transactions involve law abiding persons and firms, Customs officers will be directing their primary attention to "high-risk" passengers and cargo. I am convinced that effective enforcement and efficient facilitation can go hand-in-hand, without contradiction or without diminishing our law enforcement.

The enforcement effort is now well on its way to achieving at least our initial objectives and I will continue to reinforce it with resources as needed. At this time I am turning Customs attention on a high priority basis to the long-awaited and much needed reform of commercial practices; in essence, how we implement the tariff laws and how we process the vast quantity of imported merchandise.

Currently, we have identified numerous improvements which can be implemented within the current legal environment. Several important commercial initiatives are on the drawing-boards and the blueprints will be ready shortly.

If limited to several words to describe our plans for commercial operations, I believe "centralization," "automation" and "streamlining" would provide you with an accurate picture of where we are heading. Centralization is a key to the new system. In fact, it is almost upon us now, since only 20 locations process 70 percent of all formal entries. Under this plan, entries would be processed in a central location. Although entries will continue to be filed at the same ports as before, we intend to introduce a more selective review processing. I anticipate a noticeably faster turnaround at most locations. Furthermore, centralization has several additional advantages. Automation is most cost-effective where large volume processing is concerned. Also, appraisement will be more uniform, records duplication will be minimized and, of course, administrative overhead will be reduced. Full service to the public will continue to be provided.

Simplification of forms, paperwork, and procedures will reinforce automation and help to speed up the cargo clearance process. An approach we are exploring is for carriers to provide Customs with direct access to their own automated inventory systems. We are revising procedures by eliminating much of the paperwork previously required for containerized and other forms of cargo, reducing transit time for some shipments by 24 hours. And, we are looking at other possible innovations. In Houston, we are testing a program wherein cargo is processed by teams of inspectors using post-audit techniques. In Charleston, South Carolina, we are testing a program which uses a fully automated manifest inventory control system developed by the Charleston Port Authority and the Charleston Customs district. In the latter, we interface with the port authority's own Automated Manifest System. Both systems seem to meet the needs of the processing environment of some local ports.

We have underway a major project to consolidate our data processing functions into a single computer environment. We feel it will eventually permit us to dramatically improve Customs import processing and implement new methods of collecting duties. A major innovation to be used with this new computer is the so-called Automated Broker Interface System which has been successfully operating as a pilot project in Baltimore and Philadelphia.

I have gone into considerable detail on the projected improvements in Customs commercial operations because of their importance, your interest, and the long-term needs of the international business community. Now that we have built the necessary law enforcement framework, we are turning our full attention to the commercial "side of the business."

Finally, this budget continues our efforts to reduce the overall cost of government business. Inefficient operations will be replaced by sound management practices and systems. Excessive overhead, as well as duplicative and marginal operations, have been specifically targeted for elimination to partially meet the reduced resource levels reflected in this budget. We are continuing to study other proposals to achieve resource savings and improve operational performance, including possible Regional and District reorganizations and, the introduction of less labor intensive approaches to providing service and other means to increase the percentage of entries that bypass import specialist review.

INSPECTION AND CONTROL

Customs Inspection and Control programs include the processing of persons and cargo, as well as the clearance of carriers, for both revenue and enforcement purposes. Customs efforts to balance the expeditious processing of persons and goods will continue in FY 1984. Our objective, considering the resource reductions requested, is to achieve this balance in the most economical way possible while still maintaining full service.

To meet the challenge of a growing workload, we are, in the normal course of our inspections, automating and implementing increased selectivity in the handling of imported merchandise and in passenger processing. Especially in the cargo processing system, every step, from manifesting to duty collection, is subject to time-saving, less resource-intensive procedures. With regard to enforcement, selectivity is also the major instrument of increased efficiency. Our special teams of inspectors, equipped with detector dogs and the best possible intelligence and analysis we can muster, are searching only high risk cargo. These teams have already established significant cost-benefit ratios with noteworthy narcotics seizures from cargo and baggage. We intend to expand their use, expertise, and the equipment available to them.

Passenger Processing

Customs processed more than 300 million persons entering the United States in fiscal 1982, of which almost 30 million were air passengers. Although air passengers constitute only about 10 percent of the total number of persons entering the country, they require a higher than proportionate share of Customs resources because of the constraints of time and space in their processing. The problem is particularly acute because of the "peaking" phenomenon at airports and the lag in expanding facilities to meet the growing workload.

To meet these greater demands and insure that this rapidly growing workload is efficiently accommodated, both in terms of facilitation and enforcement, Customs has developed new approaches.

We are tailoring our processing systems to the physical configuration and threat level of each airport and introducing a system similar to the traditional Red/Green system generally used at European Airports. Whatever form of Red/Green system is most effective in a particular airport, that is the system we will install. We anticipate implementation of a Red/Green processing system at many of our major airports. Our basic operating assumption is that the vast majority of passengers are honest and can select the particular inspection needed. Different versions of the Red/Green system are being tested in Houston and O'Hare Airports. A Red/Green system is already operating at Miami International Airport and it will be implemented at JFK in March 1983.

The enforcement aspects of passenger processing are being reinforced by training inspectors in new observational techniques, development of walk-through narcotic detection devices, passport "readers," and other similar innovations. Moreover, these new techniques will be very useful in our special responsibility of handling security and visitor processing for the Summer Olympic Games in 1984 at Los Angeles.

Olympics

Customs is requesting $3.6 million and 31 average positions (staff-years) in FY 1984 to facilitate and protect the many foreign visitors expected to attend and participate in the Summer Olympic Games in Los Angeles. It assuredly will be a great event and Customs intends to do its part in seeing to it that no unexpected activities disrupt the Games.

Customs will be implementing an integrated operation encompassing passenger and cargo processing, security and law enforcement, including inspectors, patrol officers, special agents, and intelligence specialists. All foreign visitors and participants, as well as the equipment they bring, will be processed by Customs through various ports of entry. It is projected that the majority of visitors and equipment will arrive at Los Angeles International Airport, although other major ports of entry will be impacted as well.

Customs concern is to insure that the additional workload does not result in facilitation or security problems at Los Angeles, or any other port. The security threat to the arriving visitors, participants and inspection personnel is heightened because of past world-wide attempts of international terrorist groups to target events like the Olympics, bringing notoriety to themselves and their causes. It is estimated that Los Angeles will experience an additional 15-20 percent workload during the normally heavy summer tourist season. Customs expects J.F.K., San Francisco, Chicago, Miami, Honolulu and Houston to have 10-15 percent increases in passenger traffic.

Customs plans to provide sufficient manpower and equipment to insure orderly passenger flow, with minimal delay, while maintaining the best possible enforcement security. An additional 303 Customs officers will be detailed to impacted airports and other locations. Communications and security capabilities will be enhanced and helicopters will assist in surveillance operations. Our full range of security devices will be employed to screen passengers so that no weapons or explosives enter the country.

Cargo Processing

Application of selectivity procedures is ripe for the cargo processing area. To accomplish this we are expanding existing cargo selectivity and introducing full-scale automation to cargo processing systems. I would now like to discuss several systems which have been specifically designed to facilitate the flow of cargo while maintaining an effective enforcement.

In cargo processing, the most significant innovation has been the expanded and enhanced Automated Cargo Clearance and Enforcement Processing Technique (ACCEPT) system. Rigorous system testing during FY 1982 showed that regulatory and enforcement efforts could be improved and cargo expedited by intensively examining only selected shipments identified by automated intelligence as high risk.

Customs ACCEPT efforts in FY 83 include conversion to a central-site computer, and expansion to 10 major ports. At the same time, a manual version of the system, previously developed for use at small to medium-sized ports, will be installed at 12 additional locations. The enforcement aspects of ACCEPT were also strengthened by its "marriage" to Customs Automated Cargo Transaction Intelligence System (CACTIS) which provides background data on each shipment.

In the future, ACCEPT is to be incorporated into a larger automated commercial system, which will control processing of cargo from its arrival at the docks or airports until release to the importer. The system is currently in development on a modular basis. Until that system can be implemented, expansion of ACCEPT as a stand-alone system will continue at major ports. In addition, a number of other initiatives will be pursued to further streamline the entire cargo system.

Contraband Enforcement Teams

The new Contraband Enforcement Teams are reinforcing the traditional inspectional routine. These Teams, ranging in size from 2 to 20 officers, gather and disseminate intelligence perform input document review and analysis and search suspect cargo. Whenever violations are detected, merchandise, drugs, contraband, and items in violation of currency reporting and export laws are seized. Team capabilities will be bolstered by combining their search efforts for drugs in cargo with those of the Canine Teams.

TARIFF AND TRADE

Customs Tariff and Trade Program is responsible for appraisement, classification, duty assessment and collection on entries of imported merchandise, as mandated in the Tariff Act of 1930. Related and equally important functions include verification of import statistics; administering national trade policy by monitoring quotas, steel import restrictions, various trade agreements; as well as enforcing merchandise admissibility for over 40 other Federal agencies and 400 related laws.

We intend to reform and improve the full range of tariff and trade operations and carefully review the current role of the import specialist in the processing of entries. Our goal is to reduce the burden on the importer, especially his costs of doing business with Customs, while insuring that Customs maintains required services as resources decline and the volume of merchandise imports increases. These innovations are already underway or are in the planning stage. I am including a brief description of these innovations in order to give you some measure of the depth and breath of the challenge we are facing over the next two years.

Automation and Centralized Appraisement

Centralizing merchandise appraisement in fewer locations is a major innovation for increasing productivity and maintaining service with a reduced staff. Furthermore, centralization will enhance planned automation, which can be cost-effective only when large volumes must be processed, and assist in implementing bypass and post-audit systems. These approaches are the core innovations for this system.

Whatever the final configuration of duty assessment locations, centralization does not mean an end to Customs presence, nor any curtailment of our service to the public. The ports not included in the centralized list are not being closed. Inspectors and other Customs support staff will remain in every port, only import specialists will be relocated.

Furthermore, entry papers will still be filed at the port of arrival. Under centralization, these papers will simply be processed at another location. The presence, or absence of an import specialist at any particular port will not affect the initial Customs review of these documents. Similarly, centralization will not delay merchandise being released to importers or entered into or withdrawn from either Foreign Trade Zones or Customs bonded warehouses. These and all other Customs activities at the port will proceed without disruption.

Maximizing Automation Capabilities

A corollary development to centralized appraisement is the preparation of a fully integrated and automated data base to meet Customs and trade community requirements for entry processing, entry examination, cargo release, duty collection, and liquidation. Many of our current manual and automated entry processing functions have evolved as independent activities within the Customs Service and are not integrated into a single system. The automated system, as we now envision it, will interface the broker community, source data, and Customs processing procedures.

Automated interface with the broker computers is a key feature of the system. Currently, about sixty percent of the entry summaries presented to Customs are prepared on broker computers, that number is expected to grow to 75 percent by 1986. Customs views this as a unique opportunity for both the trade and Customs to work together. Electronic interchange of entry data between us has been successfully pilot tested for over two years. By FY 1984, five Customs ports will be processing eleven percent of Customs total entry summary workload by the Automated Broker Interface (ABI). The continued expansion of ABI will facilitate the implementation of Customs commitment for streamlined processing and the development of a "paperless entry" based on a post audit capability.

Selectivity criteria for both cargo examination and import specialist review will be maintained in a common data base. The system which will be fully operational in FY 1984, will be capable of identifying the degree of review required by the import specialist. Random sampling will maintain system integrity.

Finally, in these times of limited resources, each agency involved with collecting funds must devise the most efficient means for enhancing debt collections, cash management, and cash flow. This goal is precisely what Customs is striving for in this program. Customs is exploring a variety of systems and is testing new approachs for speeding up debt collections and cash flow. In fact, new cash flow procedures will assure that estimated duty payments will be in the bank within a day after collection. Several proposals for improving debt collection are under consideration, but at this time no decisions have been reached. Commercial fraud teams also will be operating to insure that evasion of duties is held to a minimum.

I believe these innovations, and perhaps others, will pay increasing benefits in the future and will be the means for eliminating unnecessary paperwork, simplifying processing methods, and, best of all, making the importation of goods and payments of duties a more businesslike operation.

TACTICAL INTERDICTION

Customs Tactical Interdiction Program was organized to detect and apprehend smugglers operating between the ports of entry, generally those areas where a significant percentage of today's drug smuggling occurs. Customs maintains a highly mobile land, sea, and air tactical enforcement force and tailored to changing smuggling patterns. Customs tactical units have introduced new operational approaches, equipment, and technology to control and reduce smuggler options for choosing the method, time, and location for crossing our borders.

Our principal tactical interdiction forces are stationed at land, sea, and air ports of entry, and supported by airplanes, helicopters, and boats. Primary emphasis, in the past several years, has been the Southeast Border, where massive amounts of drugs enter the country, and associated large flows of currency enter and leave daily to finance this international drug trafficking. Customs in cooperation with the Coast Guard and the Drug Enforcement Administration, has implemented a series of joint interdiction operations at these critical smuggling border areas. As a result, during fiscal year 1982, seizures in which Customs Tactical Interdiction Program was involved amounted to more than $5 billion, or almost $5 million worth of contraband per Officer.

This Administration is committed to fighting crime and we in Customs are in a unique position to contribute since drugs have become a major illegal and untaxed revenue source for crime syndicates around the country. Internally, in order to insure a more effective effort, I realigned the Customs field enforcement organization. Now, the various enforcement elements are working together and our programs are integrated at all management levels.

Current Efforts

Customs Tactical Interdiction Program conducts a variety of traditional enforcement operations such as surveillances, patrols, intelligence-gathering, monitoring sensors, examinations of passengers and crew members, special integrated enforcement efforts, and vessel and aircraft searches. To combat smuggling by vessels, the Customs Marine Interdiction Program operates 110 boats, ranging in size from 14 to 57 feet and stationed at 49 high-risk locations. A new marine module, concept patterned after the successful Patrol Air Program concept and utilizing a command and control center, will be tested during a 6-month trial scheduled for May 1983. A major facet of this enhanced marine module will be a Servicewide plan for upgrading the entire vessel fleet. Replacements in the fleet will occur in stages as resources are available. Exchange/sale provisions and the traditional seizure/forfeiture routes will be used.

A major interdiction problem for the Marine Program is the "mothership", which is a large fishing or ocean-going vessel hovering offshore and unloading large amounts of marijuana. These "motherships" come from source areas with multi-ton supplies of marijuana, and head either directly for the United States or for rendezvous points where the marijuana is either unloaded at cache sites or off-loaded to smaller boats for runs to locations along the shoreline. Intelligence reports indicate that large-scale smuggling by vessel, while still very active in the southeast, is increasing along the West Coast, Middle Atlantic, and New England coastal areas.

Some measure of the success of our efforts are the outstanding seizures achieved. During FY 1982, the Marine Interdiction Program was responsible for some 4,000 narcotics and non-narcotic seizures, which included 2,600 pounds of cocaine, and in conjunction with the Coast Guard, over 3.3 million pounds of marijuana, as well as 2,400 arrests.

A prime concern of the U.S. Customs Service has been the effectiveness of our Air Interdiction Program as a deterrent against the smuggling of narcotics and contraband by private aircraft, a threat that has dramatically increased over the past several years. In fiscal year 1981, the value of narcotics and dangerous drugs seized in the Customs Air Program amounted to $745 million--an increase of 88 percent over 1980, and five fold over 1979. Seizures during fiscal year 1982 are valued at over $1.2 billion--an increase of over 60 percent compared to the previous year.

In an effort to most effectively respond to this serious problem, Customs air operations use an up-dated strategy. This strategy, a "module" concept, is now in place in Florida. By concentrating air personnel and equipment in a high-threat area and using them in conformance with the new detection, interception, and tracking strategy, it has been shown that significant results can be achieved. In addition, because of your continued interest in Customs achieving the most effective air interdiction program, I have brought on a consultant to review our current plans and approaches, and to provide us with recommendations for developing the most up-to-date air program.

Customs has invested much of its air enforcement resources to combat the smuggling of narcotics and dangerous drugs into Florida. These efforts were intensified in support of the Vice President's Task Force. Most gratifyingly, the present enforcement posture in Florida has deterred the flow of contraband. However, as expected, continued intensive operations in Florida and the assistance of Department of Defense equipment, now available because of the relaxed Posse Comitatus restrictions, are forcing smugglers to shift operations to the Gulf and Southwest Borders. Also, I wish to thank Chairman, Congressman Glenn L. English, Committee on Government Operations, for outstanding assistance in obtaining equipment by Customs in its interdiction efforts.

A recent seizure in Santa Rosa, New Mexico lends strong support to the reality of the shift in smuggling. Smugglers attempted to airdrop 214 pounds of cocaine packed in duffel bags from a private plane to confederates on the ground. Only the timely intervention of enforcement units prevented the drugs from reaching their destination.

In order to meet this threat, we have requested $18.3 million for a complete air module for operational use at other critical air smuggling locations. Recently, because of the easing of POSSE COMITATUS restrictions and with the invaluable assistance of Congressional Committees, we have held discussions with the Defense Department which may lead to the loan of a number of aircraft and other air interdiction equipment. This option, should it materialize, will provide us with an alternative national air interdiction capability. We will keep the Committee informed as these discussions with the Defense Department continue.

INVESTIGATIONS

The Customs Service investigates violations of Customs and related laws. Included in this broad mandate are currency, neutrality, fraud, organized crime, white collar crime, smuggling, cargo theft, and wildlife violations. In accomplishing these investigative tasks, during the past year, several major enforcement objectives were emphasized.

Operation El Dorado

Our investigative attack on criminal organizations under the provisions of the Bank Secrecy Act and through their financial transactions, Operation El Dorado, has paid excellent dividends in terms of its impact on the largest smuggling groups operating in this country. Using multi-agency investigative and prosecutorial teams, Operation El Dorado operates under the leadership of the local U.S. Attorney. It is currently active in Miami, Los Angeles, Houston and New York - cities with large-scale currency movements and in the forefront of top-level drug trafficking and money laundering.

Our Treasury Financial Law Enforcement Center (TFLEC) which came into full operation in January 1982, is supporting the nationwide Operation El Dorado and Operation Greenback, our south Florida version, which also includes IRS, DEA, and the Office of the U.S. Attorney. The Center is analyzing financial characteristics of criminal markets and assisting in developing useable strategies for exploiting criminal financial business practices. Needless to say, the Center also is the source of tailored intelligence, both domestic and foreign, developed and adapted for the investigative field units.

On a national basis, Operation El Dorado resulted in the indictment of 197 individuals, and over $30 million in currency has been seized. While civil penalties under the currency penalty provisions exceed $33 million, the related jeopardy tax assessments by IRS against these criminals exceeds $112 million. Recoveries realized by the Government through this initiative far exceed its costs. Customs is planing for the expansion of Operation El Dorado to Philadelphia and Chicago. New task forces will be formed in other cities as criminal cash flow and/or laundering activities are identified.

Operation Exodus

Operation Exodus was established during FY 1982. Seizures at numerous ports of aircraft parts, communications electronic equipment, computer parts, classified defense items, and lasers indicate the extent and complexity of the problems Customs confronts. In addition, and equally serious, is the illegal transmission of technical data on research, development, and manufacturing. Our job is not only to detect these shipments, but also to punish the individual violators; and ultimately, if we are to be successful, discourage these shadowy activities of domestic manufacturers, overseas intermediaries, and foreign operatives. To meet these objectives, the wholehearted support of American industry is required.

The $10 million expansion requested in FY 1984 will permit Customs to respond to the sophisticated tactics of the violators. In addition to equipment, the funds will allow Customs to implement wide-ranging operations, directed to specific products, manufacturers, and geographic locations. The sophisticated equipment will become the means for conducting long-range investigations, serving as the basis for strong criminal cases and raising the prosecution and conviction rate against top-level violators.

By the end of FY 1982, Exodus had accounted for 765 seizures, valued at $55 million, of critical technology. Some 150 violators were arrested and currently 45 indictments are pending.

Operation Florida

I am proud to inform you of the excellent response by the entire Customs Service to the President's call to form a multi-agency task force for controlling the flow of drugs into this country through southern Florida. Working on a priority basis, all functional groups contributed to the planning and implementation of Operation Florida, which moved into its operational phase in March 1982. Customs contribution of Special Agents, Tactical Interdiction Officers, Inspectors, and support personnel represented about 80 percent of the staffing strength of the entire operation. By all accounts, Operation Florida has successfully disrupted and deterred major smuggling activities along the Florida coast, particularly those involving private aircraft.

To date, Customs personnel assigned to the Task Force have provided a concentrated and aggressive interdiction effort. Intensive investigations have resulted in the disruption and successful prosecution of major drug smuggling leaders. Operation Florida has produced more than 800 arrests and almost 3,000 pounds of cocaine seized.

Presidential Drug Task Force Initiative

Responding to the growing crime problem, a Presidential Drug Task Force initiative was established this year and is now being implemented throughout the country. Initially, Drug Task Forces will be operating at 12 high crime locations. Customs will participate with other Federal Law Enforcement Agencies in these task forces. As now envisioned, Customs will primarily conduct financial, internal conspiracy and interdiction/smuggling investigations. The financial investigations will focus on large-scale smuggling groups responsible for the laundering of large sums of money. We are requesting $15,881,000 and 225 average positions (special agents and support personnel) to join with other Federal Agencies in assuring the success of this initiative, which we believe is required to meet this President's goal of disrupting organized crime throughout the country. The requested FY 1984 funds will permit continued expansion of the program.

Drug Interdiction

The primary operational activities of these city Task Forces will not be directed to preventing the illegal importation of dangerous substances across our borders. However, based on Customs recent experience in the Operation Florida Task Force, drug interdiction can be successfully integrated into the operational approach. Operation Florida was an outstanding example of a successful approach to the problems of illegal importation of dangerous substance. Although the emphasis of the twelve Task Forces is critical and essential to the fight against narcotics related crime, we feel that more must be done along the lines of the Florida approach in order to fulfill our mission of preventing illegal importations and to round out an overall effective narcotics enforcement program.

Fraud Emphasis

Over the past year, Customs has recorded several major accomplishments in the difficult areas of civil and criminal fraud. Our Special Agents were successful in two highly publicized Volkswagen and Mitsui cases, which resulted in $37,500,000 collected for the Government. During the past year, the Fraud Program returned over $54 million in revenues that would have been otherwise lost to the Government. Looking to FY 1984, we hope to build on past successes, targeting major civil and criminal violations -- with an end-product of high-level arrests and a return of multi-million dollar revenues lost to the Government.

INTERNATIONAL COOPERATION

Customs is very active in the international arena and is committed to improving enforcement against international drug traffickers and the facilitation and standardization of international trade and travel. During the past decade, an international system of nomenclature for international trade has been our goal. Under the auspices of the Harmonized System Committee of the Customs Cooperation Council, we have undertaken, in response to private business and government interests, the development of a compatible international classification for Customs tariffs, international trade statistics, and the facilitation of goods.

Our reorganized international operations, now integrated under a single International Affairs Office, has been active in the areas of technical assistance, the Customs Cooperation Council (CCC), and Customs bilateral agreements. For several years, Customs has provided technical assistance and training, on a reimbursable basis, to foreign governments in cooperation with the Department of State. Jamaica, Haiti, Liberia, Jordan, and Saudi Arabia are recent examples of assistance in enhancing or modernizing of their Services. We are planning to expand both technical assistance, particularly in the areas of trade policy, and in enforcement training. An increasing emphasis is now directed to providing valuation training to developing countries, which should assist American exports.

Our participation in the work of the CCC as well as the implementation of Customs bilateral agreements has brought tangible benefits to both American business and international trade. Customs enjoys close bilateral ties with foreign Customs administrations important to our trade and border drug interdiction. In some cases, we have negotiated formal Customs assistance agreements with key countries in order to institute a formal base of assistance. Currently, we have assistance agreements with Austria, France, Germany and Mexico. Consideration is being given to additional agreements with Italy, Spain, Canada, Japan, Great Britain, and the European community. In this vein of international cooperation, we have submitted the Kyoto Convention to the Senate for their approval. This convention, which would simplify customs entry procedures internationally, has been signed by many countries. If our participation is ratified, it will augment our position as a leader and innovator among the nations of the world.

RESEARCH AND DEVELOPMENT

I would like to take a moment to provide you with a brief description of Customs research and development efforts, which I believe are essential for effective enforcement operations against today's sophisticated smuggler and the highly complex technical problems encountered in our other activities. In support of the obviously long-term needs for developing new technical applications, Customs is requesting in FY 1984 authorization for no-year funding for its R&D activities.

Modern technology is needed to improve the effectiveness of our interdiction and investigative efforts; to facilitate the flow of passengers, cargo and conveyances; and to improve productivity by reducing costs and introducing new work methods. It is the responsibility of our Research and Development Program to introduce new applications of modern technology by developing equipment for meeting unique needs, by identifying commercial military equipment useful to our mission, and by assisting field personnel in the use of this equipment.

Significant benefits will accrue in enforcement and facilitation from the new airport system for automatically reading U.S. passports and its automatic referral to available violator data bases. We are working with the Immigration and Naturalization Service and the State Department on developing these passport readers. At the land borders a similar system for license plates of arriving vehicles is in development. Detecting narcotics in vehicles and passengers will increase, we believe, as a result of our present R&D efforts to apply gamma radiation in hand-held detectors. Technical improvements in our cargo screening also are in development. Vapor detectors installed in walk-through configurations at airports should provide similar assistance to passenger processing. Operation EXODUS will benefit from new tagging systems to detecting unlicensed exportations of critical technology and from tracking systems to monitor the location of unauthorized shipments. In addition, several important projects are directed toward improving our detection of incoming smuggler aircraft more efficiently.

CONCLUSION

In closing, I wish to reiterate that Customs basic mission is the collection of revenue and enforcement of Customs and related laws. Customs must fulfill this mission in a dynamic environment, important elements of which include the traveling public, the trade community, American business and the general public. The activities of Customs in fulfilling its responsibilities call for increasingly sophisticated operational and enforcement techniques and the application of a wide variety of skills and disciplines.

Consistent with Administration determination to crack down on crime and strengthen the economy, Customs will play an increasingly important role. In FY 1982, Customs began a series of new law enforcement initiatives and strengthened all its ongoing programs. To increase effectiveness, additional resources were allocated to law enforcement programs and new approaches were developed and implemented to meet specific problems. My goal this year, Fiscal Year 1983, is to "fine tune" the operations of the law enforcement programs and bolster their capabilities as new opportunities for effective action occurs.

In essence, we will support successful programs and cutback on those that are not productive.

Furthermore, in Fiscal Year 1983, Customs will begin a major reform of its commercial processing of merchandise and introduce administrative improvements in its programs and organizational structure. Wherever possible, we intend to introduce more efficient and selective approaches, making full use of automation, reduced paperwork and rapid processing techniques. As I described these efforts earlier, we will be working closely with the importing community to insure that the final operating system meets their needs. Similarly, we will be introducing efficiencies in administrative support throughout Customs. Streamlined administrative support for operational programs is our goal. We are currently reviewing all administrative functions in order to eliminate excessive overhead and duplicative activities.

I believe the strategy presented here is the direction in which Customs must move today and in the future. Current indications are that drug seizures will increase and major trafficking will be disrupted. Our fraud efforts will assure increasing revenues. As to our efforts to protect the national security, illegal exports of critical technology to Eastern bloc countries must be cutback sufficiently so they are no longer a threat. Overall productivity and efficiency will increase as paperwork is reduced. We believe the systems already implemeted and on the drawing boards will improve passenger and cargo processing.

I have presented an extensive blueprint of improvements we initiated last year or will be implementing this year. In FY 1984, we should begin to see the completion of these efforts. Many of these innovations will be fully operating and producing successful results by next year. I will be working with the Congress on ways for Customs to do a better job. At times, I will be presenting new approaches and proposals for reorganizing our field structure or for consolidating various functions.

Efficiency, economy, and increased productivity will be the key objectives in determining these reorganizations.

Although Customs is reducing its overall workforce, I still intend to make real progress on achieving my priorities of maintaining a strong enforcement posture, improved cost-effectiveness, better service, and providing the American public with a modernized Customs Service.

This concludes my introductory statement. We are available to discuss the details of the request and answer your questions and those of the Subcommittee Members.

ORGANIZED CRIME DRUG ENFORCEMENT PROGRAM

Last October, the President announced a major new initiative to combat organized crime and drug trafficking. This program represents a major effort to have a coordinated and cooperative investigative effort among Federal, state and local law enforcement agencies to attack the drug problem. On December 17, 1982, Congress approved funding for FY 1983 totaling $127.5 million for this program. The program includes the creation of 12 new regional drug task forces covering the entire United States. It is composed of investigators, prosecutors and technical and clerical support personnel.

Goals and Objectives

The drug task force program's overall goal is to identify, investigate and prosecute members of high-level drug trafficking enterprises and to destroy the operations of those organizations. The program is designed to achieve its goal by two means:

1. Adding new Federal resources for the investigation and prosecution of major drug trafficking organizations; and

2. Fostering improved interagency coordination and cooperation in the investigation and prosecution of major drug cases.

Achieving these two aims should result in more and better cases against high level drug traffickers, which, in turn, should have an appreciable impact on illegal drug trafficking.

Each task force will have its own organizational identity. It will have a separate central office and an administrative staff. There will be attorneys and agents officially designated as task force attorneys and task force agents.

Among the specific objectives of each task force will be:

1. To target, investigate, and prosecute individuals who organize, direct, finance or are otherwise engaged in high-level illegal drug trafficking enterprises, including large scale money laundering organizations;
2. To promote a coordinated drug enforcement effort in each task force area, and to encourage maximum cooperation among all drug enforcement agencies;
3. To work fully and effectively with state and local drug enforcement agencies; and
4. To make full use of financial investigative techniques, including tax law enforcement and forfeiture actions, in order to identify and convict high-level traffickers and to enable the government to seize assets and profits derived from high-level drug trafficking.

Meeting these objectives will result in the seizure of large quantities of illegal drugs and trafficker assets, and the disruption of large scale drug trafficking organizations.

General Policies

A number of general policies have been agreed upon between the Justice and Treasury Departments. The most significant of these are listed as follows:

1. Task force resources are resources to be added to current drug enforcement efforts. Therefore, existing drug enforcement resource commitments in effect at the initiation of the task force program must be maintained.
2. The drug task forces will not operate as separate law enforcement agencies. Rather, they will coordinate the investigative and prosecutorial efforts of agents and attorneys handling task force drug cases while remaining under the command of their own offices.
3. The core-city United States Attorney shall be accountable for the overall performance of the task force, in accordance with provisions of these guidelines.
4. The initial allocation and subsequent permanent reallocations of task force positions among and within task forces will be made by the Attorney General, based upon recommendations from the task forces, each agency's headquarters, and the Working Group.
5. Task force attorneys and task force agents will remain under the line authority of their own United States Attorneys or SACs. However, they may work out of common space according to the needs of individual cases.

Standards for Task Force Cases

In each district the task force investigators and prosecutors will be assigned significant investigations of major drug trafficking organizations that warrant the involvement of more than one investigative agency. Also assigned to the task forces, as resources allow, will be investigations of major drug trafficking organizations that demand significant attorney resources during the investigative stage. Examples of such cases would be matters involving electronic surveillance, extensive use of the grand jury, the presence of substantial property or cash that is likely to be subject to forfeiture, the likelihood of income tax violations, and the corruption of public officials.

Treasury Department Participation

We believe that three Treasury Department enforcement bureaus are in a position to make a significant contribution to the President's Drug Enforcement Task Force Program. The Customs Service and the Internal Revenue Service will conduct financial investigations under the Bank Secrecy Act and the Internal Revenue Code which will target, investigate and prosecute individuals who organize, direct, finance or are otherwise engaged in major multi-national drug trafficking enterprises. Full use will be made of laws and regulations which will enable the IRS and Customs to seize assets and profits derived from drug trafficking activity. The utilization of a multi-agency investigative approach, such as that employed by Customs and IRS in 23 financial task forces already in operation in various parts of the country, should promote full and effective cooperation between state, local, Federal and foreign law enforcement agencies.

The Treasury Financial Law Enforcement Center (TFLEC) at Customs Headquarters will be expanded and will provide financial intelligence, analytical support and investigative targets, to the task forces.

The Bureau of Alcohol, Tobacco and Firearms will participate in the Drug Task Forces. BATF will target major drug traffickers who violate the firearms and explosives laws.

We are seeking funding in FY 1984 for 500 additional personnel for our Treasury enforcement bureaus who will work on the drug task forces. The breakdown for the Treasury bureaus is as follows:

Treasury		Positions
IRS	-	220
Customs	-	200
BATF	-	80
Total		500

In connection with its request for the Organized Crime Drug Enforcement Program, the Justice Department has requested its Appropriations Committee for the following personnel resources.

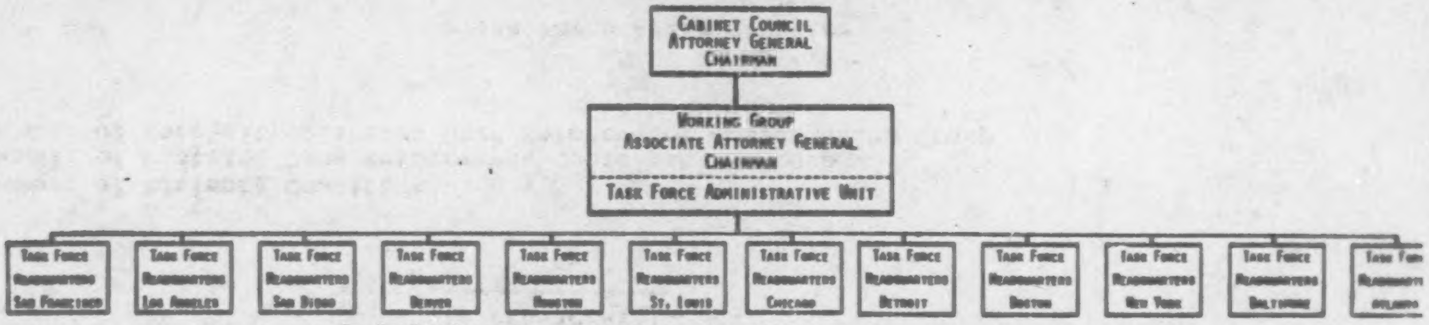
Justice		Positions
FBI DEA U.S. Marshalls	-	760
U.S. Attorney's Office (Incl. 200 prosecutors)	-	340
Other	-	30
Total		1130

Today we are specifically asking you to fund 200 positions for the U.S. Customs Service. These positions will be allocated primarily in the 12 core cities of the drug task force program. These cities are listed as follows:

San Francisco
Los Angeles
San Diego
Denver
Houston
St. Louis
Chicago
Detroit
Boston
New York
Baltimore
Atlanta

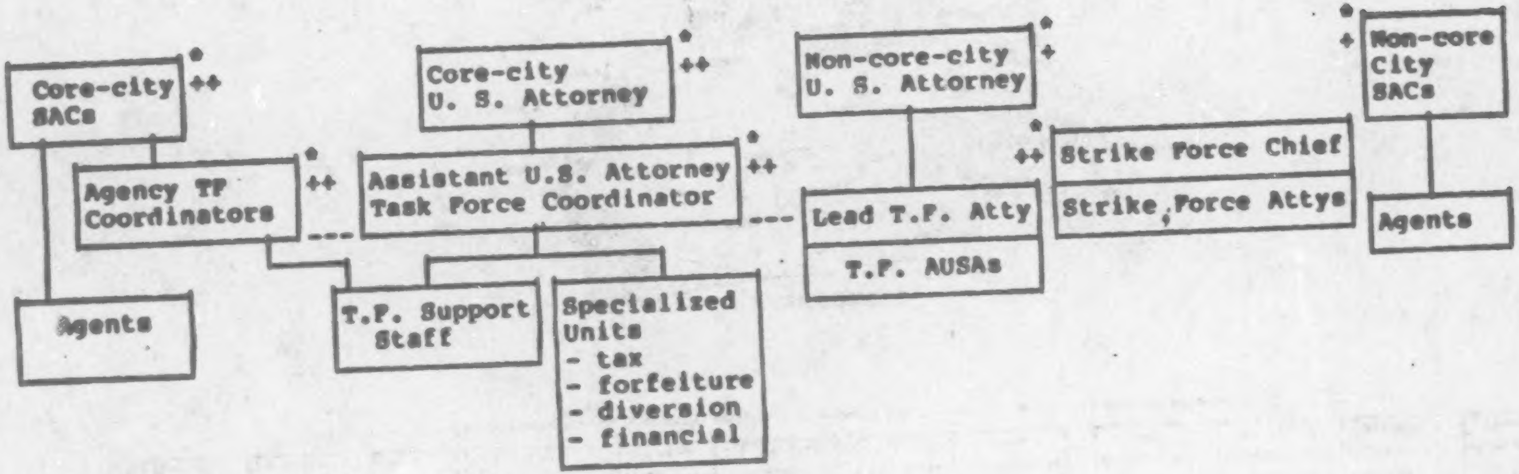
In addition to the core cities, Customs drug task force resources will also be deployed in Charleston, South Carolina; Philadelphia; New Haven, Connecticut; Indianapolis; Cleveland; New Orleans; Las Vegas; Newark; San Diego; Phoenix; Honolulu and Kansas City. It is our intention to staff the Treasury Financial Law Enforcement Center with 33 analysts, support and ADP positions who will provide direct financial and analytical information to the various drug task forces.

ORGANIZED CRIME DRUG ENFORCEMENT
TASK FORCES


Cabinet Council
Attorney General
Chairman
Working Group
Associate Attorney General
Chairman
Task Force Administrative Unit
Task Force Headquarters San Francisco
Task Force Headquarters Los Angeles
Task Force Headquarters San Diego
Task Force Headquarters Denver
Task Force Headquarters Houston
Task Force Headquarters St. Louis
Task Force Headquarters Chicago
Task Force Headquarters Detroit
Task Force Headquarters Boston
Task Force Headquarters New York
Task Force Headquarters Baltimore
Task For Headquart Atlanta

Each Task Force Regional Headquarters consists of an Assistant U.S. Attorney and participating agency coordinators.

TASK FORCES


Core-city SACs *++
Agency TF Coordinators *++
Agents
Core-city U. S. Attorney *++
Assistant U.S. Attorney Task Force Coordinator *++
T.F. Support Staff
Specialized Units
- tax
- forfeiture
- diversion
- financial
Non-core-city U. S. Attorney *+
Lead T.F. Atty
T.F. AUSAs
*++ Strike Force Chief
Strike Force Attys
*+ Non-core City SACs
Agents

* = Member of Advisory Committee
+ = Member of District Drug Enforcement Coordination Group
++ = Member of Core-city District Drug Enforcement Coordination Group

Task Force Administration

GUIDELINES FOR THE DRUG ENFORCEMENT TASK FORCES

INTRODUCTION

These guidelines are intended to assist United States Attorneys, Special Agents-in-Charge and other local criminal investigation chiefs for Task Force agencies (hereinafter SACs), and other investigative and prosecutorial personnel in establishing and operating the Drug Enforcement Task Forces announced by President Ronald Reagan on October 14, 1982.

The standards and procedures are sufficiently broad and flexible to allow individual Task Forces to be tailored to meet the special needs of their areas. At the same time, however, they provide sufficient structure and uniformity to ensure that all the Task Forces serve the fundamental purposes of the Task Force program, and to enable the utilization of Task Force resources to be measured and assessed. These guidelines apply to anyone working on a Task Force case, regardless of whether he or she has been officially designated as a Task Force attorney or agent.

GOALS, POLICIES AND STANDARDS OF THE TASK FORCE PROGRAM

Goals and Objectives

The Drug Task Force program's overall goal is to identify, investigate, and prosecute members of high-level drug trafficking enterprises, and to destroy the operations of those organizations. The program is designed to achieve this goal by two means:

- Adding new federal resources for the investigation and prosecution of major drug trafficking organizations.
- Fostering improved interagency coordination and cooperation in the investigation and prosecution of major drug cases.

Achieving these two aims should result in more and better cases against high level drug traffickers, which, in turn, should have an appreciable impact on illegal drug trafficking.

Each Task Force will have its own organizational identity. It will have a separate central office and an administrative staff. There will be attorneys and agents officially designated as Task Force attorneys and Task Force agents.

Among the specific objectives of each Task Force will be:

1. To target, investigate, and prosecute individuals who organize, direct, finance, or are otherwise engaged in high-level illegal drug trafficking enterprises, including large scale money laundering organizations;

2. To promote a coordinated drug enforcement effort in each Task Force area, and to encourage maximum cooperation among all drug enforcement agencies;

3. To work fully and effectively with state and local drug enforcement agencies; and

4. To make full use of financial investigative techniques, including tax law enforcement and forfeiture actions, in order to identify and convict high level traffickers and to enable the government to seize assets and profits derived from high-level drug trafficking.

Meeting these objectives will result in the seizure of large quantities of illegal drugs and trafficker assets, and the disruption of large scale drug trafficking organizations.

General Policies

The following general policies will apply to all Task Forces:

- Task Force resources are resources to be added to current drug enforcement efforts. Therefore, existing drug enforcement resource commitments in effect at the initiation of the Task Force program must be maintained.
    - Each Task Force position that is filled by an agent or attorney who is assigned to drug cases at the time the Task Force assignment is made must be backfilled with an agent or attorney also assigned to drug cases, except that agents occupying positions funded for non-drug enforcement functions who are diverted to drug enforcement at the time of assignment to a Task Force position, may be backfilled by agents assigned to the function of the funded position.
    - There will be no reduction in the current efforts of the Organized Crime Strike Forces against drug trafficking by organized criminal groups.
- The Drug Task Forces will not operate as separate law enforcement agencies. Rather, they will coordinate the investigative and prosecutorial efforts of agents and attorneys handling Task Force drug cases while remaining under the command of their own offices.
- Each United States Attorney and SAC will consult with state and local drug law enforcement personnel through the district Law Enforcement Coordinating Committee and the District Coordination Group member from state and local law enforcement. They will work with state and local personnel as fully as possible on operational activities and intelligence sharing. This will result in the best overall drug enforcement effort in each district. Periodic reports will be required on the role of state and local law enforcement in the Task Force program.

- The core-city United States Attorney shall be accountable for the overall performance of the Task Force, in accordance with provisions of these guidelines.

- The Task Force monitoring system will follow the violators in a Task Force case through the entire criminal process, from investiqtion to release from prison.

- The initial allocation and subsequent permanent reallocations of Task Force positions among and within Task Forces will be made by the Attorney General, based upon recommendations from the Task Forces, each agency's headquarters, and the Working Group.

- The United States Attorneys will determine which Assistant United States Attorneys from their respective offices or newly-hired prosecutors for their districts will be designated as Task Force attorneys. Task Force attorneys shall be prosecutors who are experienced in handling complex federal drug, financial or related cases.

- The local SACs will determine which agents from their respective offices will be designated as Task Force agents. Task Force agents will be selected from agents who are experienced in investigating complex drug trafficking cases or cases of a similar nature, such as large money laundering operations or matters involving illegal activities of major ongoing criminal groups.

- Task Force attorneys and Task Force agents will remain under the line authority of their own United States Attorneys or SACs. However, they may work out of common space according to the needs of individual cases (see section on Housing of Task Force Personnel).

- Personnel designated as full-time Task Force personnel may work only on cases that have been approved as Task Force cases, recognizing that extraordinary circumstances may require temporary diversion of these resources, and with the exceptions provided in the section on Task Force Size and Composition.

- Non-Task Force personnel may work on Task Force cases, at the discretion of the responsible United States Attorney or SAC. Each agency will be responsible for accounting for the time that is contributed to the Task Force program.

- Each core city will establish a separate Task Force office (see section on Housing of Task Force Personnel).

- Task Forces cases may be accepted by the United States Attorney in a district after reaching agreement with the district SACs, followed by concurrence from the core city Task Force Coordinator, after consultation with the Agency Task Force Coordinators.

- It is not necessary that every Task Force prosecution include specific drug charges, but every Task Force prosecution must be drug-related. That is, the specific charges may be tax, RICO, currency, or other non-drug violations, as long as the targets have been identified as major drug violators and otherwise meet the Task Force standards.
- In every case in which there is a plea agreement, a plea must be made to at least the most serious charge in the indictment unless the United States Attorney in whose district the case is pending personally approves a plea to a lesser charge.
- Each Task Force will compile and maintain a current list of targeted major drug violators.
- All press releases concerning Task Force cases should be cleared through the United States Attorney prosecuting the case, and should otherwise conform to the existing Attorney General's Guidelines.

Standards for Task Force Cases

In each district the Task Force investigators and prosecutors will be assigned significant investigations of major drug trafficking organizations that warrant the involvement of more than one investigative agency. Also assigned to the Task Forces, as resources allow, will be investigations of major drug trafficking organizations that demand significant attorney resources during the investigative stage. Examples of such cases would be matters involving electronic surveillance, extensive use of the grand jury, the presence of substantial property or cash that is likely to be subject to forfeiture, the likelihood of income tax violations, and the corruption of public officials.

Major drug trafficking organizations include any of the following types of groups, where a sizable number of individuals is involved in the trafficking or there are large actual or potential profits gained from the trafficking:

- Traditional organized crime figures, to the extent that such matters are not being worked already by Strike Force personnel, and, in any case, in coordination with the Strike Force office with responsibility for the district;
- Major outlaw motorcycle gangs (e.g., Hells Angels, Pagans, Outlaws or Bandidos);

- Other organized criminal groups (major street gangs, prison gangs, and similar groups);
- An organization that is importing and/or distributing large amounts of controlled substances, or is financing the foregoing; or
- Physicians or pharmacists illegally dispensing substantial quantities of prescription drugs.

The preceding are general standards for the types of cases that may be accepted as Task Force cases. Each core-city United States Attorney, in consultation with his or her Advisory Committee, may establish more specific criteria (such as minimum quantities of a given substance) to be applied within a Task Force area.

NATIONAL OVERSIGHT OF TASK FORCE PROGRAM

The Cabinet-level Committee on Organized Crime, which is chaired by the Attorney General, provides top-level review of the national policies, interagency coordination, and intergovernmental cooperative efforts of the Task Force program. It is responsible for handling exceptional, national-scale problems that have not been resolved at any other level.

The Working Group, which is chaired by the Associate Attorney General, is composed of ranking officials from Justice and Treasury agencies, including, but not limited to, the Task Force investigative agencies: the Federal Bureau of Investigation, the Drug Enforcement Administration, the United States Customs Service, the Internal Revenue Service, and the Bureau of Alcohol, Tobacco and Firearms. Its role is to articulate policy and to coordinate the development and maintenance of the Task Force program. The Working Group also is responsible for discussing non-legal disputes that cannot be resolved within or among Task Forces.

The Drug Task Force Program Administrator serves as Executive Director of the Working Group and, through the Task Force Administrative Unit, provides administrative support for the Working Group. In addition, the Administrator supervises the Task Force Administrative Unit and is responsible for promulgating and periodically reviewing guidelines for the structure and operation of the Task Forces, for establishing a national case reporting system, and for implementing procedures by which the Working Group will monitor and report on the performance of the Task Forces.

Administrative Structure: Washington

Task Force Administrative Unit. The Washington, D. C., administrative functions of the Task Forces will be handled by the Task Force Administrative Unit. Under the supervision of the Task Force Administrator, the Unit will include a staff attorney, an analyst, and a secretary. It also will have individuals designated as liaisons from all Task Force agencies and Departmental units with activities pertaining to Task Force cases. The unit will be attached to the Associate Attorney General's Office and administered through the Consolidated Administrative Office. It will have the following responsibilities:

1. Scheduling and staffing meetings of the Working Group;
2. Reviewing the legal and administrative services provided to the Task Forces by the Criminal Division, Executive Office for United States Attorneys, Justice Management Division, Tax Division, investigative agencies, etc.;
3. Receiving a weekly caseload report, by district and by Task Force, from the Executive Office for United States Attorneys;
4. Producing periodic informational memoranda to keep the Working Group and Task Force personnel apprised of events occurring throughout the program;
5. Producing semi-annual reports for the Attorney General and United States Attorneys, annual reports for the President and Congress, and other analyses as directed by the Working Group; and
6. Developing a system, in consultation with the Bureau of Justice Statistics, for tracking non-criminal and post-sentence processing of violators, using available data systems (such as that of the Bureau of Prisons).

The Task Force administrative functions will be conducted to the greatest extent possible through existing Departmental systems. This includes conducting data collection through the Docket and Reporting and PROMIS systems, conducting training through the Attorney General's Advocacy Institute and the Quantico and Glynco Training Centers, providing legal advice through the various sections of the Criminal Division and other equivalent units, etc.

To facilitate overall coordination of the program, all Task Force agencies will provide the Task Force Administrative Unit with a copy of all written communications between Washington and field offices concerning Task Force activities, except for communications concerning individual cases only or individual agents, attorneys, or support personnel.

Case Reporting and Tracking System

A committee has been formed to quickly assess and report on the information that should be collected on Task Force cases and how that information need can best be met. The information to be collected includes the data necessary for Task Force management by the United States Attorneys and the Working Group, and for overall evaluation of Task Force performance, which will be used in reports to the Attorney General, the President, the Congress, and the public.

The committee consists of the Assistant Attorneys General for the Criminal and Justice Management Divisions, a core-city United States Attorney, the Director of the Executive Office for United States Attorneys, the Task Force Administrator, and a representative of each of the Task Force investigative agencies.

Forfeitures

A subcommittee of the Forum for Cooperative Strategy has been considering how the Department of Justice can better meet its forfeiture responsibilities. The subcommittee is reviewing a survey of the forfeiture situation recently conducted by the Justice Management Division, the Criminal Division, and the Executive Office for United States Attorneys. Among the issues under consideration are organization and procedures for the maintenance and disposal of forfeited property, litigative support for criminal and civil forfeiture actions, forfeiture training, a review of forfeiture regulations and statutes, and coordination of forfeiture activities among Departmental units. It is expected that an options paper will be presented promptly to the Attorney General. Once policy decisions on forfeitures have been made for the Department as a whole, the Task Force Working Group will provide directions to the Task Forces.

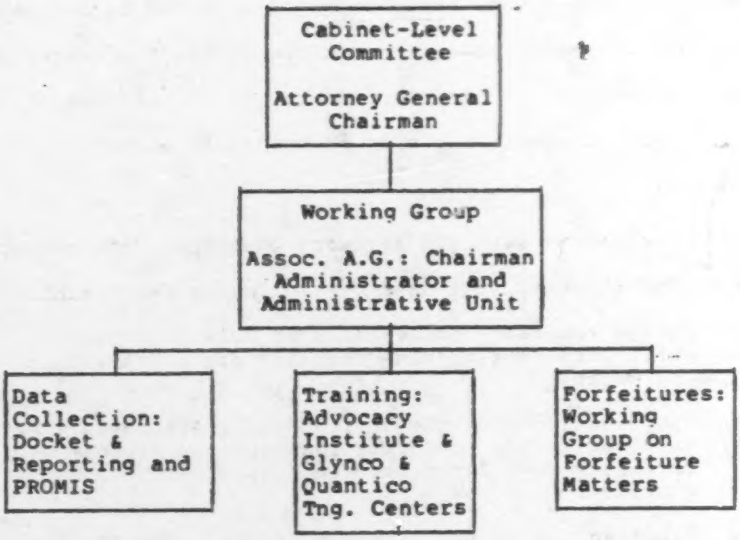
The members of the committee are from the Executive Office for United States Attorneys, the Criminal Division, the Civil Division, the Justice Management Division, the United States Marshal's Service, the Federal Bureau of Investigation, the Drug Enforcement Administration, and the Immigration and Naturalization Service. In addition, other law enforcement units are being consulted as necessary.

Training

The Administrator of the Task Force program will work with Departmental units and Task Force investigative agencies to ensure that needed seminars, conferences, and other training is provided in the following areas:

1. Task Force orientation and administrative procedures for managers of Task Force offices;
2. In-service training for Task Force attorneys and agents in such areas as financial investigations, forfeiture actions, and specialized drug investigative techniques;
3. Specialized training for new attorneys in narcotics prosecutions, CCE and RICO statutes, forfeiture actions, financial investigations, and related areas; and
4. Pre- and in-service training for Task Force administrative staff.

Existing training programs conducted by the Attorney General's Advocacy Institute, the Federal Law Enforcement Training Center in Glynco, Georgia, the Federal Bureau of Investigation Academy at Quantico, and other appropriate training facilities will be utilized. Any additional, specialized Task Force training will be developed as necessary by the Advocacy Institute for attorney training and by existing investigative training facilities for agent training.


Cabinet-Level Committee
Attorney General Chairman
Working Group
Assoc. A.G.: Chairman
Administrator and Administrative Unit
Data Collection: Docket & Reporting and PROMIS
Training: Advocacy Institute & Glynco & Quantico Tng. Centers
Forfeitures: Working Group on Forfeiture Matters

National Task Force Administration

Administrative Structure: Field

Core-city

Each Task Force will be coordinated by a core-city United States Attorney, who will be accountable to the Associate Attorney General on matters pertaining to the conduct of the Task Force. His or her initial responsibilities will include:

1. Establishing a Task Force Advisory Committee composed of the core-city United States Attorney, as chairman; the other United States Attorneys in the area; the Assistant United States Attorney Task Force Coordinator; the Agency Task Force Coordinators; the Task Force agency SACs in the area; and the Strike Force Chiefs in the area; and

2. Establishing a Task Force Coordination Group composed of the Assistant United States Attorney Task Force Coordinator and the Agency Task Force Coordinators. The United States Marshals Service, the United States Coast Guard where present in the Task Force area, and other appropriate agencies shall have a liaison official with the Task Force Coordination Group.

The core-city United States Attorney will not have direct line authority over attorneys outside of his or her own district. They will be hired by and report to their respective United States Attorneys.

Investigative agency personnel will be hired by and report to their respective agencies. Core-city investigative agency heads will be responsible for the coordination of the investigative effort of their respective agency personnel in multi-district Task Force cases.

In consultation with the Advisory Committee, the core-city United States Attorney will have the following responsibilities:

1. Making temporary assignments of core-city Task Force attorneys to non-core city districts within the region;
2. Coordinating with the United States Attorneys involved in the temporary reassignment of non-core city Task Force attorneys to other districts;
3. Recommending to the Attorney General, through the Working Group, permanent reassignment of Task Force attorney positions from one district to another;
4. Developing guidance, consistent with these guidelines, for the selection of Task Force attorneys and Task Force agents to be followed by United States Attorneys and SACs in the Task Force area;
5. Compiling and maintaining a current list of the major drug violators and trafficking organizations to be targeted by the Task Force;
6. Developing plans and strategy for the aggressive investigation and prosecution of the targeted violators and organizations;
7. Reviewing all decisions by the Assistant United States Attorney Task Force Coordinator, following consultation with the Agency Task Force Coordinators, to turn down non-core city cases as Task Force cases;
8. Reviewing all Task Force cases on a periodic basis to ensure that proper standards are being maintained and that a high level of interagency coordination exists;
9. Discussing inter-Task Force disputes with other core-city United States Attorneys;
10. Developing any Task Force policies and standards more detailed than, but consistent with, those enunciated in these guidelines. The Working Group must be informed of all such policies;
11. Overseeing the administrative functions of the Assistant United States Attorney Task Force Coordinator, including ensuring compliance with all Task Force standards and case monitoring requirements, and ensuring that all Task Force resources are being devoted to Task Force cases; and

12. Establishing and maintaining cooperative working relations with state and local law enforcement agencies, working with the Law Enforcement Coordinating Committees, and otherwise ensuring that a high level of intergovernmental cooperation is maintained in drug enforcement.

The Assistant United States Attorney Task Force Coordinator should be a senior Assistant United States Attorney selected by the core-city United States Attorney and approved by the Associate Attorney General, who will work full-time on the Task Force and report directly to the core-city United States Attorney. The Assistant United States Attorney Task Force Coordinator's responsibilities will include:

1. The establishment of the Task Force office; and
2. The administrative operations of the Task Force office.

The Task Force Coordination group will:

1. Evaluate the cases forwarded to the Task Force office by individual United States Attorneys for concurrence as Task Force cases. In addition, it will regularly review the use of all Task Force resources throughout the area to ensure that Task Force resources are being devoted to Task Force cases as required by these guidelines, and that all cases that should be Task Force cases are being presented for Task Force consideration. The Group also will resolve any problems of cooperation among personnel from different Task Force agencies, and will monitor changes in the pattern of drug trafficking in the area;

2. Meet on a regular basis with state and local law enforcement officials from all geographic areas covered by the Task Force. The Group will ensure that federal, state, and local law enforcement officials are sharing information and developing joint operational activities on Task Force matters to the fullest practical extent;

3. Designate agent and attorney specialists within the Task Force, including:

    - Forfeiture specialists, who will be one or more Task Force agents and/or attorneys that seek civil and criminal forfeiture opportunities, file complaints and follow through to collection, and provide advice and assistance on forfeiture matters to other Task Force agents and/or attorneys;

    - Financial Investigations specialists, who will be one or more Task Force agents and/or attorneys well-versed in financial investigative and prosecutive techniques;

- Tax specialists, who will be one or more Task Force agents and/or attorneys that provide tax expertise and expedite the review process in tax cases; and
- A Task Force attorney designated as a drug diversion specialist to oversee diversion cases.

Agency Task Force Coordinators

Each Task Force investigative agency will assign a supervisory level agent on a full-time basis to the core-city Task Force office to work with the Assistant United States Attorney Task Force Coordinator on the operation of the entire Task Force. The Agency Task Force Coordinator will confer with the Assistant United States Attorney Task Force Coordinator on the evaluation of all proposed Task Force cases; will regularly review the assignment of agents and other resources from his or her agency to Task Force cases in all districts within the Task Force; will work with the agency SACs in the Task Force districts to ensure the full and effective participation of the investigators from his or her agency in multi-agency cases; will monitor, with the other Agency Task Force Coordinators, the patterns of drug trafficking in the district; and will ensure that all necessary agency Task Force reports are prepared.

The Agency Task Force Coordinator also will be the agency's representative on the core-city District Drug Enforcement Coordination Group.

Individual Districts

Non-core City United States Attorneys

Once attorney and support allocations are made for a non-core city United States Attorney, he or she will: (1) select the Assistant United States Attorneys who will be Task Force attorneys, (2) designate a Lead Task Force Attorney, in consultation with the core-city United States Attorney, and (3) hire attorneys to back-fill for those selected as Task Force attorneys. In back-filling, it must be kept in mind that the Task Force resources are additional drug enforcement resources, and that the pre-Task Force levels of drug enforcement in the office must be maintained.

The Lead Task Force Attorney in each district will be the United States Attorney or a senior Task Force Assistant United States Attorney with the following responsibilities:

1. Present all cases from the district to the Task Force office for concurrence as Task Force cases. Having the Lead Task Force Attorney present all cases from the district to the Task Force office will ensure that all necessary information is gathered before a presentation is made, thereby reducing the need for multiple contacts. It also will provide each district with an individual well versed in the procedures and expectations of the core-city Task Force office;
2. Assign Assistant United States Attorneys to Task Force cases, consistent with section on Task Force Size and Composition, infra, and supervise their performance;
3. Maintain a record of the status of all Task Force cases in the district;
4. Ensure that all required opening, progress, and closing written case reports on Task Force cases in the district are prepared and submitted to the Task Force office and the Department, as required;
5. Serve on the District Drug Enforcement Coordination Group; and
6. Serve as liaison with the Task Force office on any problems that arise with the Task Force.

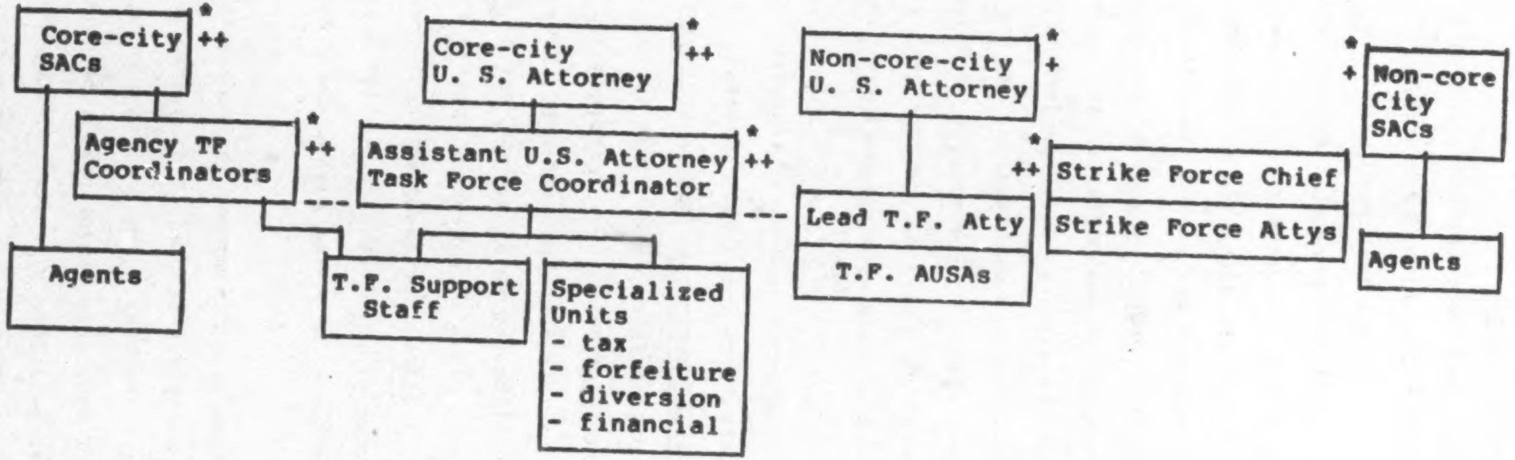
Investigative Agency SACs. The investigative agency SAC or senior supervisor for each district will be responsible for bringing potential Task Force cases to the attention of the District Drug Enforcement Coordination Group; for assigning agents to Task Force cases, consistent with the section on Task Force Size and Composition, infra; for supervising the performance of the agents on Task Force cases; and for serving on the District Drug Enforcement Coordination Group.

District Drug Enforcement Coordination Group

Each district, regardless of the level of Task Force resources allocated, will establish a District Drug Enforcement Coordination Group, consisting of the United States Attorney, the Lead Task Force Attorney, the Task Force investigative agency SACs or senior supervisors for the district, and at least one representative of state or local law enforcement. The United States Attorney will determine how the Coordination Group relates to the Law Enforcement Coordinating Committee. In districts with a Strike Force office, the Strike Force Chief or Lead Strike Force Attorney also will be a member of this group. The Coordination Group will have the following functions:

1. To review all cases prior to designation as Task Force cases;
2. To review the assignment of agencies, agents, and attorneys to Task Force cases;
3. To monitor the progress of Task Force cases, and to coordinate between Task Force cases and among Task Force and non-Task Force cases;
4. To coordinate relations among federal, state, and local law enforcement on Task Force cases, and to ensure that there is proper and effective information sharing and operational cooperation in drug enforcement in the district; and
5. To review intelligence information in order to monitor drug trafficking patterns and to identify major organized drug trafficking and other organized criminal enterprises in the district. Organizations and activities so identified will be assigned for investigation by either Task Force or non-Task Force resources, as appropriate. Major criminal enterprises that are so identified, but for which investigative and/or prosecutorial resources are not available in the district should be brought to the attention of the Task Force office in the core-city.

The Coordination Group will meet regularly, and the United States Attorney will provide the necessary administrative support.


Core-city SACs *++
Agency TF Coordinators *++
Agents
Core-city U. S. Attorney *++
Assistant U.S. Attorney Task Force Coordinator *++
T.F. Support Staff
Specialized Units
- tax
- forfeiture
- diversion
- financial
Non-core-city U. S. Attorney *+
Lead T.F. Atty
T.F. AUSAs
*++ Strike Force Chief
Strike Force Attys
*+ Non-core City SACs
Agents

* = Member of Advisory Committee
+ = Member of District Drug Enforcement Coordination Group
++ = Member of Core-city District Drug Enforcement Coordination Group

Task Force Administration

Size and Composition of Each Task Force

The initial allocation of Task Force attorneys, agents, and support personnel will be made by the Attorney General, following submission of recommendations from the Task Forces and the members of the Working Group. Task Force personnel will be allocated to work only on cases approved by the Associate Attorney General as Task Force cases. The allocation decision will be made based on current caseloads of United States Attorney and investigative agency offices, projected future needs, analyses of the nature and extent of illicit drug operations in the different areas, and other relevant data. The actual allocations may not represent equal distributions among the various Task Force regions. To the extent that the foregoing provisions effect non-Department of Justice agencies, the Attorney General will make allocations only after consultation with the Cabinet officer with responsibility for such agencies.

It should be noted that attorney and agent resources officially designated as Task Force resources ordinarily will be measured in full-time permanent positions, not in work years contributed by an agency to Task Force work. This is necessary in order to ensure accountability of Task Force resources and to facilitate the monitoring of Task Force performance. However, a small portion of positions allocated to an agency, not to exceed 25 percent, may be filled on the basis of man-years, rather than full-time assignments. This will allow, for example, the temporary utilization of non-Task Force prosecutors with special abilities or the local investigation of leads in places without Task Force investigators.

In back-filling both agent and attorney positions, the number of pre-Task Force funded man-years devoted to drug enforcement must be maintained. Thus, after the Task Force positions have been back-filled, the number of drug enforcement positions must equal at least the number of funded positions allocated to drug enforcement before the formulation of the Task Force, plus the number of Task Force positions allocated.

To ensure that the Attorney General and the Working Group are fully informed about each Task Force's needs, each core-city United States Attorney, in consultation with the Advisory Committee, will submit on an annual basis:

1. A narrative assessment of the overall drug problem in the Task Force area, with emphasis on the most prevalent illegal drugs and most significant drug organizations;
2. A list of the ten most significant drug violators convicted in the area over the past year, with brief explanations of the significance of each case;
3. A description of the current distribution of drug enforcement resources, by district; and
4. A projection of future drug enforcement resource needs, by district.

Any supplemental or differing views or comments by individual United States Attorneys or SACs will be included. These data, along with proposals from the investigative agencies' headquarters and other available information, will be considered by the Attorney General in deciding on resource allocations among and within the Task Forces and among the different agencies.

Reallocation of Resources

The allocation of attorney and agent resources among the Task Forces and districts will be reviewed annually by the Attorney General, considering recommendations of the Working Group. Data from the Task Force case monitoring system will provide significant information that will be used to establish the need to maintain or shift resources among and within Task Forces.

Housing of Task Force Personnel

Core-city Office. A separate Task Force office will be established in existing federal space in each core-city to provide adequate space for the following:

1. The Assistant United States Attorney Task Force Coordinator and Agency Task Force Coordinators. They will be assigned full-time to the Task Force office. They will be expected to devote their time to monitoring their agency's activities throughout the Task Force area; working with the other coordinators in Task Force case selection

and coordination; and coordinating their agency's role in core-city district Task Force cases; and

2. The Task Force administrative support personnel assigned to the core-city. These individuals will work full-time out of the Task Force office.

Task Force Attorneys and Agents. Task Force agents and attorneys will be housed out of their own agencies. When working on a multi-agency case that the District Drug Enforcement Coordination Group determines can be investigated best by agents sharing space on a full-time or part-time basis, arrangements for designation of such space in existing agency offices or, if adequate space is not available, acquisition of secure space for this purpose will be made through the Group. When agents and/or attorneys work out of such common space, evidence will be maintained there, unless the nature of the evidence requires otherwise.

Relations With Organized Crime Strike Forces

In keeping with the policy of supplementing the current level of drug enforcement activity by each federal law enforcement component, as set forth in these guidelines, each organized crime Strike Force shall maintain, at a minimum, its current drug enforcement role, including its pre-task force level of manpower dedication (currently estimated at 15% of the Strike Forces' inventory nationwide). Each Strike Force will continue to dedicate its drug enforcement efforts to those same organized crime syndicates upon which it concentrated prior to the advent of the Task Force program.

The current practice in each district with respect to the referral of drug cases to the Strike Force by the United States Attorney or the investigative agency also shall continue. In order to ensure a coordinated attack on drug trafficking throughout the United States, the Strike Force chief shall, as soon as a Task Force becomes operational in his area, brief the Assistant United States Attorney Task Force Coordinator or Lead Task Force Attorney concerning all drug related matters in the Strike Force's active inventory. Thereafter, it shall be the continuing responsibility of the Strike Force chief to provide a copy of the case initiation report on each new drug related Strike Force investigation to the Assistant United States Task Force Coordinator or Lead Task Force Attorney in the district. The Strike Force Chief or senior Strike Force Attorney in a field office also will be a member of the District Drug Enforcement Coordination Group for the district in which his office is located.

In the event that a United States Attorney determines that it is necessary for a Strike Force to increase the level of its resource commitment against drug trafficking within his district, the Task Force Advisory Committee shall follow its normal resource allocation procedures in deciding whether to provide Task Force attorney positions to the Strike Force on a permanent or temporary basis, so that the Strike Force can meet these added responsibilities without a diminution of its efforts against other organized crime activities.

In addition, the Strike Force offices will coordinate with the Task Forces on any Task Force investigations of traditional organized crime figures within the Strike Force's geograpical area of responsibility.

Relations With Existing Drug Prosecution Units

The use of Task Force resources will be coordinated with the use of non-Task Force drug enforcement resources through the District Drug Enforcement Coordination Group. In addition, each United States Attorney's office and investigative agency should establish internal procedure to coordinate intra-office drug enforcement activities. Since there will be substantial significant drug enforcement work being conducted apart from the Task Forces, it is important that Task Force and non-Task Force elements maintain a coordinated and harmonious relationship.

Task Force Procedures

Case Selection and Acceptance

Agency SACs in each district will present potential Task Force cases to the United States Attorney for the district as soon as it is apparent that a matter may be appropriate as a Task Force case. All such matters should be discussed at the time with the District Drug Enforcement Coordination Group. If the United States Attorney agrees with the proposed Task Force designation, the Lead Task Force Attorney will contact the core-city Assistant United States Attorney Task Force Coordinator for concurrence, after review by the Task Force Coordination Group. If the United States Attorney disagrees with the SAC, the SAC may bring the matter to the attention of the core-city Agency Task Force Coordinator for the SAC's agency, who should discuss the matter with the Task Force Coordination Group. If the matter is not resolved, the SAC may refer the matter to Washington for consideration by the Working Group. If an Assistant United States Attorney Task Force Coordinator, after consultation with the Agency Task Force Coordinators, declines to designate a proposed case as a Task Force case, the decision must be reviewed by the core-city United States Attorney. The review must include a discussion of the case with the non-core city United States Attorney involved.

If a United States Attorney becomes aware of a case that should have been considered for the Task Force, but was unilaterally retained by a single investigative agency, this should be brought to the attention of the Task Force Advisory Committee for review and the development of any necessary policies and procedures to prevent recurrence. Because the focus of the Task Force program is on the investigation and prosecution of major drug trafficking enterprises, which ordinarily benefit from multi-agency investigations, it is important that potential Task Force cases be identified as early as possible, in order that the maximum advantage of a Task Force investigation can be obtained.

Upon concurrence by the Assistant United States Attorney Task Force Coordinator, after consultation with the Agency Task Force Coordinators, on the designation of a particular matter as a Task Force case, the following actions will be taken:

1. A determination will be made whether additional investigative agencies should work on the case. If so, the assignment of agents by the agencies will be made;
2. A determination on attorney assignment will be made by the United States Attorney; and
3. A determination will be made whether the investigation should be made jointly with state or local law enforcement personnel. If so, necessary arrangements for the joint investigation will be made.

Dispute Resolution

The thrust of the Task Force program is to encourage more cooperation at the field-office level by marshaling the efforts of agency personnel within local districts and making the core-city United States Attorney responsible for the coordination of the Task Force. The program is not designed to be administered centrally from Washington. Dispute resolution in all except a small number of cases, therefore, should be handled by managers in the field. In those few exceptional cases, appeals may be made through normal reporting channels to the Department in Washington.

To facilitate dispute resolution in the field, the Task Force Advisory Committee and District Drug Enforcement Coordination Group have been established. It should be possible to resolve in one of those two forums problems that arise among individual agents and attorneys. In addition, those groups can establish policies that clarify application of these guidelines at the district level, thereby preventing disputes before they begin.

Reservation

These Guidelines are set forth solely for the purpose of internal guidance for Task Force agencies and their personnel. They are not intended to, do not, and may not be relied upon to create any rights, substantive or procedural, enforceable at law by any party in any matter, civil or criminal, nor do they place any limitations on otherwise lawful investigative and litigative prerogatives of the Task Force agencies.

The Working Group recommends that the Attorney General adopt the foregoing Task Force Guidelines.

Respectfully submitted,

John M. Walker, Jr.

Rudolph W. Giuliani

D. Lowell Jensen

William H. Webster

Kevin D. Rooney

Francis M. Mullen, Jr.

January 19, 1983
Date

William P. Tyson

I hereby order the adoption of these Guidelines for the Drug Enforcement Task Forces.

1/20/83
Date

William French Smith
Attorney General

OPERATION EXODUS

Mr. WALKER. Thank you.

Over the past several years, the Soviet Union and her allies have undertaken a coordinated effort to obtain sophisticated U.S. manufactured and designed high technology items to enhance their own economic and defense capabilities. The rapid exodus of sophisticated strategic defense items, smuggled out of the country by clandestine and fraudulent means, poses a continuing national security threat to this country and its allies. Customs, through Operation EXODUS, is aggressively attempting to counter this threat by utilizing integrated enforcement teams at specific ports of exportation to inspect, detect, and seize outgoing cargo shipments. Recent seizures of aircraft parts, communications equipment, computer parts, electronics equipment, satellite equipment, classified defense equipment, laser technology, and other types of technical material attest to the magnitude of the problem. These investigations are often extremely complex and time-consuming. At the present time, Customs considers this area of investigations as one of its highest priorities. The $10 million request for added funds for Operation EXODUS in fiscal year 1984 will be used to purchase surveillance vehicles, secure telephones, computer terminals, electronic surveillance equipment, and tagging devices as well as the implementation of blitzes and special operations at critical points.

OLYMPICS

The U.S. Customs Service will be affected by the 1984 Olympic games in Los Angeles. The Olympic games will be held at 22 different sites in the five county area in and around the city and county of Los Angeles. Approximately 25,000 foreign athletes, coaches, trainers, and officials will participate in the games and an untold number of foreign visitors will come to the Los Angeles area as spectators. Since the Customs Service will have to deal with increased passenger arrivals at airports in the greater Los Angeles areas and other gateway airports, increased staffing will be required, particularly in Los Angeles. Approximately 300 Customs personnel will have to be detailed to the Los Angeles area to handle increased passenger activities. In addition, part-time employees will also be hired. Communications and security capabilities will be bolstered and helicopters will assist in surveillance operations. The full range of security devices will be employed to screen passengers in order to prevent the illegal importation of weapons or explosives. Canine enforcement teams trained in explosives and weapons detection will also be employed to support antiterrorist efforts. In addition, the Bureau of Alcohol, Tobacco and Firearms and the U.S. Secret Service will play an active role in providing security of the Olympic games. My office is responsible for the overall coordination of this effort for the Treasury Department. We are coordinating our planning with other non-Treasury agencies that are also affected by this event.

Mr. Chairman, I will now ask Mr. von Raab, the Commissioner of Customs, to present his prepared statement, and then together we will be happy to respond to questions the committee may have.

Senator ABDNOR. Thank you.

We welcome you, Mr. von Raab. You are doing quite a job.

CUSTOMS REQUEST

Mr. VON RAAB. Mr. Chairman and members of the committee, we appreciate this opportunity to appear before you today to present the U.S. Customs Service fiscal year 1984 appropriation request of $573,749,000 and 11,748 direct average positions.

This authorization request represents a net increase of $7,432,000 over the funds requested in fiscal year 1983. Included in the fiscal year 1984 request is $50,632,000 for program enhancements and other initiatives, primarily in the law enforcement areas, $35,331,000 for increases necessary to maintain current operating levels, and savings of $78,531,000.

The substantial savings to be achieved in fiscal year 1984 primarily in the area of commercial activities, will result from increased productivity, streamlined and consolidated organizational structures, abolition of overlapping functions, and efficiencies obtained from automated processing. In total, these actions will eliminate 2,000 positions.

I have stressed as a common theme in my efforts as Commissioner of Customs that increased law enforcement and facilitation of passengers and cargo can go hand in hand. In stressing law enforcement as a top priority, we implemented or expanded a number of Customs programs. I might mention that events at the Miami Airport, Kennedy Airport, and Houston are an example of what we can do to increase security. In all of those cases, our seizures have increased considerably and the response we have received from the traveling community has been nothing less than spectacular.

FINANCIAL INVESTIGATIONS

Financial investigations which are an effective way to crush the hierarchy of a criminal organization were formalized under Operation El Dorado. Fraud investigations were redesigned to target primarily major violators, and two of our more notable successes were of $25 and $11 million settlements against Volkswagen of America and Mitsui. But as notable as our accomplishments were in these areas, our greatest effort and success was in regard to two programs essential to our national security—Operation Florida and Operation EXODUS.

Operation Florida was a multiagency task approach implemented in March 1983, wherein some 250 Customs enforcement officers were detailed to south Florida. A full air module and other equipment were also deployed to put a stop to the growing smuggling by private aircraft. To date, Operation Florida has recorded more than 1,000 arrests and seized 2 tons of cocaine.

The Customs Service is continuing to work with Senator DeConcini, Congressman English, and the Subcommittee on Government Information, Justice, and Agriculture to explore ways in which we may further utilize the recently relaxed Posse Comitatus Act in our interdiction. We appreciate the efforts of all of these people as well as the Department of Defense.

OPERATION EXODUS

Operation EXODUS is the Customs Service effort to protect our Nation's critical technology. Mr. Chairman, I can state unequivocally that Operation EXODUS has been tremendously effective. During the past year we concentrated on the first of three stages of Operation EXODUS; we established an export inspection presence at the border.

The second stage of the program focused on investigation and intelligence to disclose violations of the Export Administration Act and the Arms Export Control Act. Now we are moving rapidly to implement stage three by increasing foreign conspiracy investigations through the Customs attachés already located abroad.

During 1982, we effectively established the Customs presence at the border at 12 key locations, and recently we have expanded the program to include all major ports nationwide. I should like to stress, Mr. Chairman, that the majority of funds we are requesting in this budget are earmarked for investigations and intelligence gathering. This stage of Operation EXODUS in my mind is critical because, without intelligence, our inspectional team will be operating with only limited information and will not be able to operate as effectively.

Also in the law enforcement area, we have taken great strides toward breaking the financial infrastructures of major money laundering operations. Many of these operations are directly related to narcotics smuggling operations, and we have found that by approaching them through their bank accounts, we are able to get closer to the core of the organization. Recent hearings held by Senator Roth have brought interesting light to some of these operations.

DATA PROCESSING INITIATIVES

As you might gather, in fiscal year 1982 I focused much of our effort on increasing the enforcement mission of the Customs Service. But during this time in which we were gaining enforcement momentum, I was gathering the best data processing minds in Customs to begin work on one of the most ambitious commercial processing initiatives ever attempted.

The product of this energy will be a completely refashioned state of the art commercial information system. We call it the automated commercial system, ACS. It will form the framework for the way Customs processes imported cargo and collects duty for years to come—duties which amounted to nearly $10 billion in 1982.

I would comment that I am personally responsible for this project. If it succeeds—I will take some of the credit; if it fails, I will take all of the responsibility.

One of the first reforms we will be undertaking is the centralizing of our appraisement centers. This will be accomplished within the current legal framework and, based on our past experiences, it will have no economic impact on the local importing communities. Currently there are 65 appraisement centers around the country. Of this, however, only 20 locations, or roughly 30 percent, process 70 percent of all formal entries filed.

Besides the obvious data processing advantages we will gain, the centralization of these appraisement centers will mean other significant benefits for the importing community, namely greater uniformity in applying the law and a greater interchange of ideas between employees who would otherwise be virtually isolated from one another.

The common denominator of many of the problems which we are attempting to correct is paper—literally tons of it—paper wasting the time of Customs employees, broker, and importers,

An intensive effort is currently underway to simplify Customs forms, reduce paperwork and streamline numerous procedures. We are working on new bond procedures which will reduce the number of forms required from approximately 50 down to 1. We are also redesigning the "entry summary," or form 7501, which will incorporate eight forms into one. We are also testing a "model" seaport cargo processing concept at the Port of Houston, Tex., as well as a similar program in Charleston, S.C. The new procedures and reduced paperwork embodied in these programs will probably result in significant savings for industry and the Government.

Another major innovation made possible by computerization fitting nicely with the Houston and Charleston programs is the automated broker interface system, which has been successfully operating as a pilot project in Baltimore and Philadelphia. This system, which has met with a favorable response from brokerage communities, permits direct communication with Customs' automated systems, thereby eliminating excess paperwork, messenger delays, and duplication of data input effort. We plan to have this system fully operational at no less than five locations by October of this year.

In summary then, the Customs Service is coming off of an immensely successful 1982 which included significant increases in drug seizures and major initiatives in areas both familiar and new to Customs officers. The men and women of Customs have proven that enforcement can indeed go hand in hand with facilitation, and I plan to continue this theme in the coming year.

PAPERWORK REDUCTION

In the past year we have entered into agreements with our Canadian neighbors to help facilitate cargo and passenger traffic between our countries. We have drastically reduced the number of forms required. And most of all, we have shown that relaxed examination standards do not mean decreased enforcement results.

I look forward to continued success in 1983 and 1984 from our enforcement initiatives such as EXODUS and El Dorado, our inspection initiatives, such as red/green passenger processing, and selective cargo examination, and our commercial initiatives such as the accelerated customs system and paperwork reduction.

To the extent possible then, we do not intend to search every passenger, vehicle, piece of baggage or cargo shipment—only those deemed high risk. But to insure the integrity of all of our efforts toward many of these goals, Customs will continue close control through our Office of Internal Affairs.

Finally, I want to reiterate that I will continue my efforts to seek every way possible to reduce the administrative excesses which inevitably build up and continue to exist in any bureaucracy, and I will be ever vigilant in reducing Government's grip on the day-to-day business and affairs of the importing community and the general public. In fact, I have sent letters to the congressional leaders with oversight responsibility for the Customs Service, expressing my desire to work with you toward these mutual goals.

This concludes my prepared remarks. A detailed description of Customs programs and the 1983 budget request is included in our formal submission. My staff and I are prepared to discuss the details of the request and answer your questions and those of the subcommittee members.

Thank you.

Senator ABDNOR. Well, thank you, Mr. Commissioner.

Does anyone else want to add any statement?

Commissioner, we want to applaud the job you are doing down there, you and the men and women who work for you. I want you to know that this committee has the highest regard for what you do and appreciation, too. It is a job well done and I am very, very pleased to see that your new expanded initiatives you have been carrying on and proposing are working out so well. There is no question that EXODUS has proven to work well in safeguarding the Nation's technology. Of course, I think the Nation is much better off because of this program, and we are looking forward to continued success.

Let me say this again, I commend you for the job you are doing but I am distressed about the proposal to reduce 2,000 positions in fiscal year 1984. Customs has been asked to serve the country in more ways and in more places and in more activities than ever before, and yet the administration proposes to reduce 2,000 positions in 1984. I just do not know how feasible this is. It is hard to believe you will be able to do your job without people to help you carry on that responsibility. You cannot automate everything. I know you have covered this in your presentation but I would like to go into it in a little more detail.

Was this your request? I do not mean to embarrass you. Did this come down from OMB or was this your request, the administration's request?

Mr. VON RAAB. Well, it is our request now.

Senator ABDNOR. I know how that works.

CUSTOMS INSPECTORS

Am I right that Customs inspectors made almost three-fourths of the drug seizures last year? Is that a fair statement?

Mr. VON RAAB. In terms of individual seizures, that is approximately an accurate figure. In terms of the volume or value of those seizures, then those figures would change.

Senator ABDNOR. I am sure. One big haul would make up for 100 seizures.

But of all seizures, over three-fourths are made by Customs inspectors.

Let us talk about ports of entry that we have. What does the reduced number do in that case for inspections at ports of entry? Are you going to have to cut back? Two thousand people, somebody is going to lose some services.

Mr. WALKER. Not all of the reduction are in inspection positions. The reductions that would be proposed would be—bear with me a minute.

Mr. VON RAAB. Something over 900 inspectional positions but not all are inspectors.

Senator ABDNOR. Eleven hundred sixty-four, is that not it, in this chart that I have?

Mr. WALKER. The net decrease proposed totals 1,164 average positions. I believe the numbers reflect reductions for centralized appraisement, 156; bonded warehouse administration, 114; regional and district consolidation, 170; reductions through administrative changes, 192; inspection and control, 918; tariff and trade, 450.

Senator ABDNOR. Was there some thought as to what the loss of manpower will do at the ports of entry or are you going to try to keep those staffed like they were in the past?

SELECTIVITY

Mr. WALKER. The program, and I will ask the Commissioner to go into it in greater detail, envisions increased reliance on automation, increased emphasis on our selectivity approach in processing cargo through identifying the high risk cargo and going after those through a better use of intelligence and selectivity, and then basic administrative efficiency, such as centralized appraisement that the Commissioner referred to. We have not proposed a direct reduction in any of the patrol and investigation positions which are directly involved in the law enforcement side of Customs. So perhaps the Commissioner could elaborate.

Mr. VON RAAB. The inspectional reductions would be made through use of more selective approaches at airports which would enable us to reduce staffing at those airports. And also we would reduce hours or close other ports, primarily on the northern border, that are not as highly used as others.

Senator ABDNOR. Well, as we go into this, we may ask you to answer some other written questions.

Senator Chiles wanted to be here today and he was unable to also. He asked me to submit this question to you, Commissioner.

Senator Hawkins, I guess, has a great interest in this too and brought to my attention the fact that you are proposing to eliminate 232 import specialists to save approximately $11 million. Currently there are import specialists in 65 different locations. I understand you are proposing to consolidate them into six or fewer locations.

Mr. VON RAAB. That is an effort that we have underway.

Senator ABDNOR. I understand next Friday you are proposing to exclude an import specialist in 13 ports of entry and that during fiscal year 1984 you would eliminate import specialists from another 35 locations.

Is Senator Chiles right on that?

CENTRALIZED APPRAISEMENT

Mr. von Raab. We believe eliminate is a little strong. The need for their physical presence in particular areas is under consideration.

Senator Abdnor. Well, Senator Chiles has raised a concern with the proposal to eliminate the import specialists from Jacksonville on the first round of these cuts this Friday, and the Customs Service will follow through—Jacksonville would be the only port from Maine to Texas that would not have a specialist. Customs' duties paid on goods imported through Jacksonville were $153 million in 1982, and the port generated $1 billion in economic activity in the Jacksonville area each year. The other ports that would lose import specialists are primarily small in land location such as Sweet Grass, Mont., Wichita, Kans. They are hardly in the same class as Jacksonville. The concern is Jacksonville.

Is there any chance you might reconsider them and at least not——

Mr. von Raab. First, we have to give Sweet Grass, Mont., their due. There are more entries filed in Sweet Grass than there are in Jacksonville. So the issue of the Jacksonville import specialists is one that I am very, very familiar with.

At Senator Hawkins' request, I traveled down to Jacksonville and met with all of the members of the local community, particularly the international trading community, and heard their concerns. It is true that we have a proposal to transfer four import specialists from Jacksonville and reestablish them in Tampa. I have described the centralization program in my prepared statement. I would say that with respect to Jacksonville, I was suitably impressed by their concern for the port's ability to grow and to handle new or unusual import problems. The issue of handling repeat shipments or repeat imports is not one that the removal of import specialists would affect in any way, but the Customs Service is working very closely with Senator Hawkins on this matter. As matter of fact, when you came in, I was on the telephone with Senator Hawkins on this very issue, and I have assured Senator Hawkins that we will take into consideration all of the concerns that were raised in the Jacksonville community. She and I agreed that for purposes of this hearing we should continue to work with her office and not take any action which she feels adversely affects the interests of that port.

Senator Abdnor. Let me say I appreciate your working with Senator Hawkins, and Senator Chiles likewise is a member of this committee. As a matter of fact, this question came from Senator Chiles. So I suggest if you have an opportunity, you visit with him about it, too.

Senator Hollings is also a member of the committee and he asked some questions he wants to submit in writing. You can answer in writing.

I might mention at this time that one of our members of our committee is Senator Mattingly, and I am very happy he is able to be here. I know he has a great interest in law enforcement.

Senator MATTINGLY. I have just a few questions.

Has the proposed reduction of the 2,000 agents been coordinated with the Vice President's drug task force?

PROPOSED REDUCTIONS

Mr. VON RAAB. The 2,000 positions that are covered in this proposal do not include any of the types of positions involved in the President's national task forces or the Vice President's Florida Task Force. They are not agents. They are largely commercial officers of one type or another and they are not enforcement officers.

Senator MATTINGLY. Are they involved in the discovery of drugs being illegally imported?

Mr. VON RAAB. The problems I was talking about, the usual problems——

Senator MATTINGLY. Does not their job description include that also?

Mr. VON RAAB. No.

Senator MATTINGLY. Do they uncover drugs?

Mr. VON RAAB. Inspectors are responsible for physical inspections and in the process they uncover drugs. So in that sense their job description involves narcotics interdiction.

Senator MATTINGLY. What about the effect on the drug task forces. Do you think this reduction of 2,000 agents is going to make the task forces more effective?

Mr. VON RAAB. In the Customs Service agents mean investigators. The proposed reductions are inspectors and import specialists and the task forces to which you are referring involve investigations rather than drug interdictions.

Ms. BEEBE. In that area we have requested an increase of 200 additional positions directly toward the drug initiative over our fiscal year 1983 direct appropriation base.

Senator MATTINGLY. Where will these 2,000 people go?

Mr. VON RAAB. Where would they go?

Senator MATTINGLY. Yes; are you talking about eliminating 2,000?

REDUCTION IN FORCE

Mr. VON RAAB. We would eliminate 2,000 positions which we project would require a reduction in force of something over 1,700 people.

Senator MATTINGLY. Are they going to be fired on one day or what is going to happen?

Mr. VON RAAB. As yet, I have not faced that particular problem.

Senator MATTINGLY. I think we ought to face the problem. Are they going to be absorbed by another agency?

Mr. WALKER. No; I do not think so. If ultimately the budget, the final budget that is approved by Congress and signed by the President requires a reduction of 2,000 positions then a reduction in force of 1,700 positions will be required. Normal RIF procedures would be followed.

Senator MATTINGLY. What is the normal rate of attrition now?

Mr. VON RAAB. 600 to 800 Customs employees a year.

Senator MATTINGLY. That leave?

Mr. VON RAAB. That's correct.

Senator MATTINGLY. Is that in the same category as the ones you are proposing to reduce?

Mr. VON RAAB. No; that is across the board for all positions.

Senator MATTINGLY. How about in that category?

Mr. VON RAAB. What would be done in that case is that we would reassign people within the Customs Service.

Senator MATTINGLY. What savings do we have then? Is there going to be any savings?

Mr. VON RAAB. The savings from the 2,000 positions are approximately $72 million.

Senator MATTINGLY. Is that based upon salary?

Mr. VON RAAB. Salary and whatever other support is required but primarily salary and benefits.

Senator MATTINGLY. I do not have my calculator, but 2,000 into $70-some million, is that pretty much the average wage we are talking about?

Mr. VON RAAB. I have the equivalents here and basically the reductions total $78 million of which only $5 million are not directly personnel reductions.

Senator MATTINGLY. I recall that the chairman and I last year were involved in the reduction of personnel—I forget whether it was BATF, or Customs. There was a lot of confusion between the committee and the administration. We were sitting in the backroom talking with the White House trying to determine how best to proceed. It might be a good idea to have the specifics on what the impact of that 2,000 reduction would be. I want to know what the actual reduction in force will be, not to include those absorbed in some other agency of the Federal Government.

Mr. WALKER. There is no anticipation that any would be absorbed or be reassigned, in effect, to any other departments. Anybody who leaves a service could be hired by another agency or by the private sector.

What we could provide for you, Senator, is a breakdown of the actual numbers we would anticipate having to RIF.

TREASURY RIF POLICY

Ms. BEEBE. Let me provide for the record the Department of the Treasury's policies on employees who have been reduced in force. We have a placement system that requires that those employees be hired in Treasury first. We went through RIF's first in the Office of the Secretary. We placed all but two people in that process. OPM in addition, Government-wide, provides a list from which employees must be placed first before new employees. So that while we cannot pinpoint down to the exact person, a fair percentage of those employees that will be RIFed will be picked up by other agencies through the outplacement procedures which are in place Government wide.

Senator MATTINGLY. I just want to know if at the end of the fiscal year would the total number of employees be less or more or will there be absolutely no change? Is it a shell game?

Mr. VON RAAB. The cost of the RIF would be $20 million. The recurring savings would be over $70 million. Those are at least preliminary figures.

Senator MATTINGLY. I would like to have all the details so I can understand the rationale behind the proposal.

Senator ABDNOR. This 2,000 cut, how does it come about? Madam Secretary, you are the final word for the Treasury when you go to OMB. How does this come about? Is this the Secretary's idea, this 2,000 drop, or did it come from within? I cannot believe this guy asked for it. Maybe he did. I am not going to put him on the spot.

TREASURY OMB SUBMISSION

Ms. BEEBE. I am not sure my colleagues would agree that I am the final word on anything. But cuts throughout Treasury were taken up in two ways. First, those where there were savings that could be made generally because of efficiencies and effectiveness. A portion of the cuts in the Customs Service would be made that way. For example, the change in the bonded warehouse administration program in ATF was completed last year. We applied the same principle to Customs. It really represents a different way of doing business. Consolidation and administrative efficiencies is something we are doing in all departments, to be more efficient.

So, first of all, those types of cuts have been proposed throughout the Treasury budget.

With regard to the reduction in programmatic areas, the recommendations result from discussions in OMB and the Budget Review Board in terms of the President's overall desire to reduce the level of Federal employment and to trim Government expenses.

Senator ABDNOR. I have got to add something here, Madam Secretary. I am afraid—I just personally feel that something like this had to come from the top. I am a farm boy from back home and I have a farm and it makes me think of some bureaucrat in Washington that tells us how to farm. If you are not out on the line and know how they work and know what losing a man or two does—I cannot imagine the OMB Director or the Secretary or you or anyone else really knows the work of the Customs and whether they can get along without 2,000 people.

Senator MATTINGLY. Did you say they floated a plan? You used the terminology they float something from OMB. I thought you said they floated something.

Ms. BEEBE. What I am trying to describe is the process by which agencies submit their budgets to OMB. But in the final analysis, in the specific instance of the Customs Service budget, many of the reductions stem from an overall policy in OMB and in the administration to reduce the level of Federal employment, and these programmatic areas, along with others, were proposed for reductions. The cuts were tried to be applied in areas where we would not impact law enforcement activities and where new and more efficient procedures could be included and substituted so that the impact on passengers and cargo would be minimized. We have spread these 2,000 position cuts throughout many of the Customs Service. They are not all located in inspections.

As I tried to say, some are cuts that we would believe we would do under any circumstance because there are better and newer ways to do things. I mentioned the bonded warehouse as an example. We made that change in the ATF program and it makes sense. In the case of consolidation of offices, where we can save administrative overhead, I think that makes sense from the general taxpayer's point of view.

Senator MATTINGLY. Do you have to receive other committee approval as well as coming here with your plan for reorganization? Does it go through Governmental Affairs?

Ms. BEEBE. Only when there are changes that require legislative approval. If a bureau wishes to reorganize, they develop a plan and submit it up through the Office of the Secretary and have it approved. If it requires changes in office areas in the regions, that is also presented to OMB for their approval.

Senator MATTINGLY. I am not opposed to changing the way the Government is operated—I would be the last one to do that. But it seems to me it would be easier to decide what ought to be done if we knew what the game plan was.

Senator ABDNOR. Before we get off of this, there is one last question I want to ask.

The Secretary went along with it? Secretary Regan has endorsed this? If I go to visit him—is it his idea to cut this thing? Did he give the approval?

Ms. BEEBE. It is the Secretary's position that this represents the budget that he comes before. He does support it and he will support it. I am talking about the financial plan. The proposed reorganizations have not been finalized.

Senator ABDNOR. What we are trying to find out is before this went to OMB, I suppose it came back and they told Secretary Regan they had to cut. This was not part of his game plan at the time the budget went down there?

Ms. BEEBE. Some of it was and some of it was not.

Senator MATTINGLY. It sort of surprises me that to come up with a financial goal is one thing but to not have the plan is something else. Now maybe he has got a plan like I have in my offices to make sure that expenditures are cut. That is one thing. But for me to arbitrarily go in and tell my administrative assistant that I want to cut, and not have a plan on how to do it, it sort of leaves you out on a limb.

IMPLEMENTATION OF REDUCTIONS

Ms. BEEBE. We will have a detailed plan as to how to implement any reductions. In fact, they prepare those plans regularly.

Senator ABDNOR. We have got to move on. We should ask for the record the plan and how it developed. Maybe we are asking too much but I do not think so because when we are all through and if this plan does not work, the Members of the U.S. Senate will be as much responsible if the Customs Service goes to pot. Will you give us the plan?

Mr. WALKER. Mr. Chairman, are you asking for the budget as submitted by Treasury to OMB as opposed to the budget——

Senator ABDNOR. Somewhere along the line—how it was put up, yes. I would like to know what you gentlemen had in mind. Let us face it, Mr. Secretary, even if you disagree with OMB, you are not going to tell me so. You have to live with these people. I know that and you know that and the committee knows that. I would like to know what your budget said when you left your office and went to OMB, and even how that was brought about and what you agreed to at that point in time. How did you propose to carry it through? It is one thing to pick a figure out of the sky. We all like to see cuts.

Ms. BEEBE. Mr. Chairman, we can give you a table, we call it a "who-struck-John-table," that shows what the Office of the Secretary sent to OMB and then what OMB allowed. And you will find, if you explore those tables, in every department that there will always be differences between OMB and the departments in terms of priorities. But, remember, it is the President's responsibility to prepare and submit a budget that attempts to bring us within financial and personnel constraints, and in our initial request to OMB, we had proposed to take 733 positions and, in addition, we had proposed some savings which OMB did not allow, and they proposed additional savings that we had not recommended. So you will find pluses and minuses in this analysis.

Senator ABDNOR. I am sure this is right. No one knows a program like the people that have to work in it and have to administer it from the ground level. I would like to see—I do not know how I would get to see that.

Mr. von Raab, I would like to see your initial one.

Mr. VON RAAB. We supplied that information to the House Committee on Appropriations. We would be happy to supply it again.

[The information follows:]

The Treasury Department fiscal year 1984 budget request to OMB for the Customs Service was for $613,653,000 and 12,944 average positions. The request was adjusted for the October 1982 pay increase.

CHRONOLOGY OF CUSTOMS 1984 SUBMISSION

	Average positions	Budget authority
Departmental submission	13,492	$630,661,000
OMB submission	12,944	613,653,000
Initial OMB allowance	11,492	484,700,000
Departmental appeal	12,423	571,951,000
OMB allowance of appeal	12,423	553,651,000
Departmental appeal to Budget Review Board	12,423	571,951,000
Budget Review Board allowance	12,423	571,951,000
Adjustments after appeal process:		
Organized Crime Task Force	+225	+15,881,000
Drop INS border consolidation proposal	-900	-30,700,000
Pay Act requirements		+21,617,000
Congressional submission	11,748	578,749,000

AIR INTERDICTION APPROPRIATION

Senator ABDNOR. A couple of other quick questions because we do have to move on.

Mr. von Raab, we recently appropriated in the closing days of the—it is called the "lameduck" session—$3.75 million for research—that was in the jobs bill for radar to be used in air interdiction.

Now, have things started to roll? I guess that is short notice. I get confused when we have all these continuing resolutions. But this was the jobs bill. But we added $3.75 million for research on application of radar to be used in air interdiction.

DEFENSE DEPARTMENT EQUIPMENT

Mr. WALKER. Mr. Chairman, as I pointed out in the main body of my statement, on January 17, I sent a request to the Defense Department for certain equipment. We have asked for a reply from the Defense Department. As of this point, I have not gotten a reply. So we are certainly aware of the committee's interest and of the addition of the $3.75 million, but as of the present time, until we get a reply from the Defense Department, we are not in a position to give a detailed statement as to how that money can be applied.

Senator ABDNOR. Will you keep us updated?

Mr. VON RAAB. We have done some preliminary work.

Mr. WALKER. We are doing preliminary work pending the final reply.

Senator MATTINGLY. Who did you write to, Mr. Walker?

Mr. WALKER. I wrote to Jim Juliana, who is Deputy Assistant Secretary for Manpower and Logistics at the time. My understanding is that a reply approved by Secretary Weinberger is being prepared but it has not been sent yet.

Senator MATTINGLY. It has been 3 months.

Mr. WALKER. Exactly.

Senator MATTINGLY. Maybe somebody ought to call them.

Mr. WALKER. We have, believe me.

Senator ABDNOR. Keep us informed on that.

Mr. WALKER. We are not idle. We want to reply. We wanted to reply sometime ago.

Senator MATTINGLY. If I happen to be talking to them on the phone this afternoon, I will bring up the topic if you do not mind.

COOPERATIVE ENFORCEMENT

Senator ABDNOR. This drug problem is a Federal-wide responsibility. What type of cooperative effort is Customs involved in with the other Federal and State law enforcement agencies?

Mr. VON RAAB. The primary effort, the newest one, is the President's task forces, and previously and continuing the Florida Task Force, and in addition to which there is ongoing cooperation in all parts of the country at both a State and local as well as a Federal effort. Mr. Walker can give you considerable more detail about the President's Drug Task Force, and I would be happy to answer more questions about the Florida Drug Task Force.

Mr. WALKER. My formal statement submitted for the record goes into more detail. Our involvement has been through Customs, ATF, and working closely with other agencies. They will also be coordinated with the U.S. attorneys who will be, through law enforcement committees that they run there, working in close liaison with State and local law enforcement. So that will be one major part of it.

I might also point out that in the wake of the South Florida Task Force and our successes there with interdiction, 2 weeks ago the President announced the formation of the national narcotics border interdiction system which is a broader nationwide interdiction effort that will be coordinated by the Vice President. That is a mechanism that has been set up to coordinate the various agencies of the Federal Government on a nationwide basis.

Senator ABDNOR. That has been a real success story.

Mr. WALKER. South Florida? Yes; by any standard.

Senator ABDNOR. The first time they have been able to bring all of the agencies working together in a coordinated effort. I know you are playing an important part in it and we congratulate you.

Last, how many aircraft does Customs have?

CUSTOMS AIRCRAFT

Mr. VON RAAB. We have about 65 aircraft.

Senator ABDNOR. How do you acquire your aircraft?

Mr. VON RAAB. We have acquired most of them through outright purchase or conversion as a result of a seizure.

Senator ABDNOR. Is it doing the job for you pretty well? Your planes were pretty outdated for awhile.

Mr. VON RAAB. Our fleet is not anything to brag about. However, through the recent changes in the Posse Comitatus Act, we have recently begun to receive aircraft on loan from the Department of Defense, and that infusion of more modern aircraft has made a big difference. And we expect, if some of our plans go ahead, we will be receiving more and more equipment from the Defense Department which will make an absolutely enormous change in the quality and effectiveness of the Customs air strength.

Senator ABDNOR. I am sure you can have a quarter as many planes if you have the right ones to do the job.

Mr. VON RAAB. That is absolutely right.

Senator ABDNOR. I saw one of your planes in Tucson and it was the right kind of plane.

We have other questions relating to the centralized appraisement system but I will ask those for the record.

I have one other.

Customs deals very closely with foreign governments. And most agencies have representation funds to cover the cost.

What is the status of the Customs funds in this respect?

Mr. VON RAAB. We had about $1,500 for this year.

Senator ABDNOR. Will that do the job?

Mr. VON RAAB. Well, it has now run out.

Senator ABDNOR. It was pointed out to me we have OPM and they have $2,500 and they do not have near the problems you might have in this sort of situation.

Ms. BEEBE. Mr. Chairman, we have a centralized appropriation for all of Treasury for this amount, and last year we suffered an appropriation reduction in the amount available for those kinds of expenses. It has placed a large number of the bureaus under very tight constraint and particularly in view of the increased instability in the international scene, the loss of those funds have been very harmful to the Department.

Senator ABDNOR. What is the request for it this year?

Ms. BEEBE. This year we have asked for $80,000 which is an increase back to the base of the 1982 level.

Senator ABDNOR. I guess I should remember, what did we give you last year—or this year?

Ms. BEEBE. $65,000.

Senator ABDNOR. Out of $65,000 Customs gets $1,500. Is that how they break down? This is what we are getting at. Maybe that is why we would like to have some say in how much some of these agencies get. And maybe that is why we drag our feet a little on this.

Well, we will have some other questions.

Senator MATTINGLY. I would like to compliment Mr. von Raab for the job he does.

Mr. VON RAAB. I am sorry, I did not hear you.

Senator MATTINGLY. It was an accolade.

Senator ABDNOR. There is great concern about closing ports, and the committee has been approached by Members of Congress on this matter. I want you to know we may come back to discuss this at a later time.

I am sorry if we had a long, lengthy session, but I think it was a good one and I am sure you know, Mr. Commissioner, of our concerns. We want to make sure when we are responsible for cutting 2,000 positions, that we know what we are doing. We will probably have additional questions on this that we will be submitting in writing.

Senator MATTINGLY. I have a suggestion, why don't we cut out some of the IRS agents.

ADDITIONAL COMMITTEE QUESTIONS

Senator ABDNOR. The additional questions I mentioned earlier will be submitted for your response.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

Additional Committee Questions

QUESTION: What will reduced numbers do to the inspection process at ports of entry?

ANSWER: We do not expect that reduced numbers of inspectors at ports of entry will jeopardize Customs ability to facilitate trade or our enforcement effectiveness. Through the use of selectivity, we will concentrate our efforts, both in cargo and passenger processing, on the small percentage of wrong doers who constitute a threat. We also plan to use technology to enhance our enforcement profile while at the same time facilitating trade.

QUESTION: The budget provides little detail on the enforcement results of inspection and control; except for an 8 percent enforcement rate for air passengers. What level of enforcement results are you seeking? What will you take to accomplish and what are the comparative enforcement gains of passenger versus cargo processing?

ANSWER: Customs is vigorously seeking the highest possible level of law enforcement and compliance with the laws and regulations without impeding cargo and passenger processing. In order to achieve this goal, without the benefit of additional resources, Customs will employ very selective innovative enforcement techniques. This will include refinements to already streamlined processing procedures, a free exchange of meaningful and accurate tactical and operational intelligence, continuous and thorough evaluation of resources utilized, and the flexiability to respond quickly and effectively to all identified threats. It is estimated that a cargo examination rate of 20-25 percent and a passenger examination rate of approximately 15 percent is required.

FY 82 seizure results made by inspectional personnel are summarized as follows:

		PASSENGER	CARGO
Heroin	(lbs)	85	154.1
Cocaine	(lbs)	1,918	4,934.1
Hashish	(lbs)	286.1	11,943.5
Marijuana	(lbs)	22,351.8	94,106.2
Dangerous Drugs	(Units)	1,289,270	312,017
Currency	(DV)	21,767,210	75,823
Merchandise	(DV)	20,389,739	54,957,476

FY 83 (October - February) seizures results made by inspectional personnel are summarized as follows:

		PASSENGER	CARGO
Heroin	(lbs)	77.6	64.0
Cocaine	(lbs)	272.2	199.0
Hashish	(lbs)	37.1	998.4
Marijuana	(lbs)	16,265.8	4,050.5
Dangerous Drugs	(Units)	982,017	4,510
Currency	(DV)	10,360,040	271,591
Merchandise	(DV)	9,850,383	18,825,324

Note: Not included are 10.8 lbs. of opium and 23.5 pounds of mophine seized in passenger processing. Although statistics for March and April are not yet complete, with the heroin seized in passenger processing during those months Customs will have exceeded the total pounds of heroin seized in that activity for all of FY 82.

During FY 82 passenger seizures for the above categories increased 4.5 percent over FY 81 while cargo seizures for the same period increased by 40 percent over FY 81. Continued refinement for our selectivity techniques and tactical/operational intelligence base should be reflected in the continued enhancement of these critical enforcement results.

QUESTION: What would be the effect on the capability of your narcotics operations if a portion of your $18.3 million request for FY 1984 was deleted?

ANSWER: Any reduction below the $18.3 million level would cause very serious consequences in our ability to support the proposed loaned military equipment. This is the minimal amount necessary for modification to the aircraft, fuel, repairs, maintenance and training of our personnel. Reducing this funding would result in these aircraft standing idle instead of being put to use in interdicting suspect smugglers.

This additional funding is especially important as the air smuggling threat changes. As traditional smuggling patterns into South Florida change, we see an increase in activities off the Florida coast and into states west and north of Florida. Acquiring the military aircraft certainly will help us to better address smuggling trends.

QUESTION: The Customs Service has confirmed that they have 42 confiscated drug running vessels moored at Green Cove Springs, Florida and that it costs 17¢ per day per linear foot of each vessel to keep them tied up there. For the record, list each vessel by name, length, estimated value, date of seizure, date placed and cost of storage at Green Cove Springs, through March 31, 1983.

ANSWER: All the information requested concerning vessels in storage at Green Cove Springs has been forwarded to the Committee under separate cover.

QUESTION: What are the total number of seized vessels now being stored, at how many locations, at what daily cost to the American taxpayer?

ANSWER: There are 523 seized vessels now being stored at 88 different locations. The daily cost to the American taxpayer is approximately $4,740.

QUESTION: What was the total cost to Customs in fiscal year 1982, and the estimated cost in fiscal years 1983 and 1984 of storing seized vessels, vehicles and aircraft?

ANSWER: The total cost to Customs in fiscal year 1982 for the storage of seized vessels, vehicles and aircraft was $2,595,161. The estimated costs in fiscal year 1983 are projected to be $2,840,000 and for fiscal year 1984, $3,200,000.

QUESTION: Why have the vessels not been sold?

ANSWER: The rate of disposals depends largely on how quickly forfeiture can take place and this can be a slow process for two reasons. First, the required administrative procedures, and secondly, the judicial procedures.

Once a vessel or aircraft is seized, a seizure notice is sent to all interested parties of record, informing them of the reason for the seizure and outlining the options available to them which must be exercised within 60 days. They can either file a petition for remission or mitigation of the seizure or they can have the matter immediately referred to the U.S. Attorney for the institution of judicial forfeiture proceedings. If no action is taken by an interested party, the case will be referred to the U.S. Attorney upon expiration of the option period. In addition, pursuant to 19 U.S.C 1614, anyone who has a provable substantial interest in the vessel or aircraft can acquire a release of the conveyance by paying to Customs the value of the conveyance, subject to the approval of the Secretary of the Treasury.

It has been our experience that in 90% of the cases, an interested party will file a petition seeking some sort of administrative relief pursuant to 19 U.S.C 1618. When this is done the petition must be referred for investigation. Depending on the nature of the allegations contained in the petition, and the number of petitions that have been filed, an investigation and preparation of a report can be a lengthy process, consuming months. The deciding official then must review the petition and the investigative report to determine what, if any, relief is warranted.

The petitioners are then notified of this decision. If they are dissatisfied with this decision, they can file a supplemental petition with Headquarters. Depending on the value of the vessel or aircraft, the decision on the supplemental petition will be made either by Customs or the Treasury Department. Action on the supplemental petition may consume several more months since a full review of the case is required and further investigation may be warranted if new facts are submitted in the supplemental petion. The in-house review of the proposed decision passes through several layers and is often debated by the various offices reviewing the matter so that redrafts are quite common and add to the administrative delay.

If the relief proposed is unacceptable, or if no relief is offered, the case must then be referred for civil forfeiture proceedings. This process entails submission of the case to the Regional Counsel's office, who must review the file and prepare a referral to the appropriate U.S. Attorney. Once the U.S. Attorney receives the referral doucments, he in turn will review it and if he agrees, he will file the complaint with the court. Notice of the complaint must then be filed with interested parties, who have an opportunity to file an answer to the complaint. If the civil forfeiture is contested, then the court must find time to fit the case on its calendar, for a hearing. Since the majority of the seizures, especially in the southern Florida area, involve criminal charge and must come to trial within 80 days, there is usually a backlog of several months on the court docket for civil cases. However, once the case comes up for a hearing and is not contested, a motion for default judgment is filed and the court can grant the motion if no party comes forward within 10 days. After a final judgement is entered, the vessel or aircraft is then disposed of, either by transfer to a Government agency, retained by the holding agency for official use, or sold at auction.

QUESTION: What does it take to get rid of them?

ANSWER: Speeding up forfeitures by raising the value of property which is subject to administraive forfeiture proceedings would greatly reduce the seizure and storage problems. Also, the creation of a revolving fund and legislation establishing special personnel ceilings for seizure management would cure many of these problems. These salaries would be reimbursed from the sale of seized property and their ceilings would be separate from the agency ceilings.

QUESTION: Earlier this year there was considerable anxiety in Charleston that Customs was planning to establish a "Super Port" in Savannah, which would involve the transfer of our Customs import specialists to Savannah. On March 1, I received a letter from Assistant Commissioner Schaffer stating that no such proposal "was under active consideration at this time." Furthermore, Deputy Commissioner De Angelus assured my staff member that the caveat "at this time" should not have been included in the letter. The Charleston waterfront community is still concerned about the possible loss of our import specialists. Would you for the record state that there are no plans to maintain these vital positions in Charleston?

ANSWER: Customs is continually looking for ways to improve the efficiency of its operatons. We have studied centralization of the duty assessment locations, and the Southeast Region has studied ways to consolidate its management locations. However, there is no proposal to remove import specialists from Charleston.

QUESTION: While I yield to no one in support of the effort to combat the traffic in illegal drugs, I am concerned that improvements in Customs drug enforcement efforts are being obtained at the expense of enforcement of our regular trade laws. What are Customs plans and the justification for eliminating its commercial operations?

ANSWER: Customs has maintained a balance between enforcement programs and trade programs. In the spirit of economy, we are consolidating, rather than "eliminating" our commercial operations by centralizing our duty assessment locations. We are moving the smaller one and two-man import specialist operations into larger centers where we can realize economies of scale, specialize more effectively, and reduce supervisory overhead. At the same time, we are developing selectivity programs that enable us to sort out those transactions that need close scrutiny and to give most shipments minimal attention and delay.

QUESTION: What effect would these plans have on United States revenue?

ANSWER: We expect to be as effective a revenue collecting agency in the future as we now are. We even hope to improve, once we have consolidated our several uncoordinated systems into one unified system using a common data base that will serve all parts of the system. We should do better in national coordination of assessment actions, because we will have a better interchange of information, and we will have more highly specialized technicians processing import transactions. We should reduce the cost to the Government of collecting revenue on imports, and we should reduce the public burden through selectivity.

QUESTION: Customs plans to implement a 100 percent bypass experiment in Chicago. How will the import quotas, antidumping laws and countervailing duties be enforced and collected under this proposal?

ANSWER: There is a misunderstanding of what is meant by 100 percent bypass. We intend to achieve the maximum percentage of bypassable entries and to see that they are not preprocessed and yet counted as bypassed. The North Central Region in Chicago has determined that the ports in the Region have reached a 55-60 percent bypass level and that there are more entries outside of the quota, antidumping and countervailing duty areas that could be bypassed. The Chicago Region will set up a test program to fully bypass everything that can be bypassed (100 percent bypass), giving full import specialists attention to special program entries (quota, antidumping, countervailing duty, and similar entries). The test will be run in one district for 6 months and then the results will be evaluated to determine the impact upon enforcement and revenue. The test will bypass 70-75 percent of all entries (100 percent of all bypassable entries). These entires will be evaluated using the quality assurance procedures Customs has already developed for use in evaluating the accuracy of formal entries.

QUESTION: Apparently, the Chicago experiment is part of a plan to do away with the import specialist and rely on accountants to catch up with things on a post-entry audit. They will be dancing in the streets of Hong Kong if this happens. Does Customs really believe that accountants and auditors have the abilities of the import specialist to detect a shipment of textiles marked as one type but really another to get around a quota?

ANSWER: In the distant past, there were proposals to eliminate import specialists and to work with auditors and accountants but Customs chose to operate with a mixture of import specialists and audit resources. The best and most economical use of our resources is redirecting the work that does not require a high level of expertise and which can be handled by clerks under the general direction of import specialists and their supervisors. We will continue to use our staff of regulatory auditors in support of the import specialists by making post audits to verify the information presented to Customs and by making audits to determine the reliability of firms whose entries are candidates for bypass.

QUESTION: Would Customs not expect an importer of illegal goods to distribute them quickly once they are past your bypass, so how will Customs ever catch up with them?

ANSWER: We think we have already anwsered this by our foregoing responses, but we must point out that nobody can afford to keep a large inventory these days. Customs makes a fast and reasonably accurate determination of admissibility when the goods cross our borders. We have developed a system for import specialists to communicate admissibility requirements to the inspectors who look at the shipments coming in. We have a system of import bond requirements that we can use to require redelivery or to exact a heavy penalty for failure to redeliver. An importer of illegal goods is gambling for high stakes.

U.S. SECRET SERVICE

STATEMENT OF JOHN R. SIMPSON, DIRECTOR

ACCOMPANIED BY:

JOHN M. WALKER, JR., ASSISTANT SECRETARY, ENFORCEMENT AND OPERATIONS, TREASURY DEPARTMENT
WILLIAM R. BARTON, DEPUTY DIRECTOR, U.S. SECRET SERVICE
JOSEPH R. CARLON, ACTING ASSISTANT DIRECTOR, INVESTIGATIONS
EDWARD J. POLLARD, ASSISTANT DIRECTOR, PROTECTIVE OPERATIONS
JERRY PARR, ASSISTANT DIRECTOR, PROTECTIVE RESEARCH
FREDERICK N. WHITE, JR., ASSISTANT DIRECTOR, ADMINSTRATION
FRANK PALMER, CHIEF, FINANCIAL MANAGEMENT DIVISION
CORA P. BEEBE, ASSISTANT SECRETARY, ADMINISTRATION
ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS, DEPARTMENT OF THE TREASURY

SUMMARY STATEMENT OF JOHN WALKER

Senator MATTINGLY [presiding]. Are we ready to proceed?

We will now hear from the U.S. Secret Service. Mr. Simpson, you go ahead and begin with your statement.

You may submit it for the record or brief it. Go ahead please.

Mr. WALKER. Mr. Chairman, I have a brief statement and then I can turn this over to Director Simpson.

Mr. Chairman and members of the subcommittee. It is a pleasure to appear before you today in support of the fiscal year 1984 appropriation request for the U.S. Secret Service.

Mr. Chairman, with your permission, before I begin, I would like to take a moment to give recognition, on behalf of the entire Treasury Department, to the contributions of three special agents of the U.S. Secret Service. Special Agents George P. La Barge, Donald W. Robinson, and Donald A. Bejcek died last March 5 in an automobile accident while on a protective assignment providing security for the visit of Queen Elizabeth. Though their lengths of service varied from 18 months, for Special Agent Bejcek, to 11 and 14 years, respectively, for Special Agents Robinson and La Barge, they were all highly respected and dedicated law enforcement officers. Their loss in the line of duty has been a great sadness to us all.

Appearing with me today are the Director of the Secret Service, Mr. John R. Simpson; key Secret Service staff members; Ms. Cora P. Beebe, Assistant Secretary for Administration; and Mr. Arthur D. Kallen, Director of the Office of Budget and Program Analysis, Treasury Department.

The request for fiscal year 1984 is $270,860,000, an increase of $30,398,000 over the proposed authorized level for fiscal year 1983. The primary cause of this increase results from the one-time cost associated with the protection of candidates and nominees who will be participating in the 1984 Presidential campaign and with protective support for the 1984 summer Olympics. Also included in this request are 50 new agent positions and 49 uniformed division positions.

CANDIDATE AND NOMINEE PROGRAM

The 1984 Presidential campaign year is rapidly approaching. Historically, major candidates for President have been granted Secret Service protection earlier in each successive campaign year. As a result, in August 1982, the Service established a permanent division for candidate and nominee protection. This division is responsible for overseeing the operations of all candidate and nominee details and State primary coordinating centers during the Presidential campaign and other specialized protective missions.

Currently, the Secret Service is in the process of evaluating manpower needs associated with the 1984 Presidential campaign. In this regard, the Secret Service is authorized to request staffing assistance from other Treasury bureaus in order to meet peak protective demands. Law enforcement personnel will be trained in fiscal year 1983. Most of the funding requested for the candidate and nominee protection in fiscal year 1984 is for travel and overtime.

SUMMER OLYMPICS

In addition to the 1984 Presidential campaign, the U.S. Secret Service will be affected by the 1984 Olympic games in Los Angeles. The Olympic games will be held at 22 different sites in the five county area in and around the city and county of Los Angeles. In addition, certain events will be held in other locations in the United States. Approximately 25,000 foreign athletes, coaches, trainers, and officials will participate in the games and an untold number of foreign visitors will come to the Los Angeles area as spectators. The Secret Service anticipates substantial protective requirements with expected visits by the President, Vice President, Presidential candidates, and nominees as well as foreign heads of state. The Service is now fully involved in the joint law enforcement security planning for the Olympic games as it relates to their protective responsibilities.

In addition, the U.S. Customs Service and the Bureau of Alcohol, Tobacco and Firearms are also affected by the Olympic games. My office is responsible for the overall coordination of this effort for the Treasury Department. Other Federal agencies are also affected by this event and involved in the planning process.

INVESTIGATIVE WORKLOAD

While protection is the top priority of the Secret Service, the Service continues to underscore the importance of its investigative responsibility for counterfeiting, check and bond forgeries, and other investigative matters. During fiscal year 1982, field investigative personnel suppressed 86 counterfeit note plant operations and recovered a record $82.3 million, seizing 90 percent of it before it could be passed on to the American public. Also there were 4,774 arrests in check and bond forgery cases. In total, the U.S. Secret Service made 8,836 arrests during fiscal year 1982. This was done in spite of heavy demands on field investigation agents to provide support to protective activities such as advance surveys, augmentation of protective details, and intelligence investigations.

In closing, I would like to thank this subcommittee for its continued interest in and support of the Secret Service. I will now ask the Director of the Secret Service to make his opening remarks, after which we will be pleased to answer any questions the committee may have.

Senator ABDNOR [presiding]. Director, we are happy to have you. We just want to say we know the kind of year you have coming up. The Secretary talked about the Olympics and the Presidential elections. I cannot imagine how even an efficient agency like yours can handle that.

DIRECTOR SIMPSON'S SUMMARY INTRODUCTORY STATEMENT

Mr. SIMPSON. Thank you. We are pleased with the understanding that you and the other members of the committee have shown us, and we thank you very much for that. And with your help, I am sure we can make it through the Presidential campaign and the Olympics.

Mr. Chairman, I am pleased to appear before you and the other members of this committee to present our annual appropriation request and to report on Secret Service activities during the current and past fiscal years.

I would like to thank the committee for their expression of sympathy following the tragedy in which three of our special agents, George P. La Barge, Donald W. Robinson, and Donald A. Bejcek, lost their lives in the line of duty. I am sure the words of Senator DeConcini in tribute to these men will in some way express to the family and friends of all our special agents that the job they do is appreciated and respected. Thank you and the other members of the committee for this sincere expression of sympathy. We extend our thanks for their expressions also.

Before I introduce my associates that are here with me today, I would like to say a few words about former Deputy Director of the Secret Service, Myron I. Weinstein, who retired this past fall. The dedication and professionalism so evident during his nearly 30 years of distinguished Government service helped to guide the men and women of the Secret Service in carrying out their responsibilities. We, at the Service, wish him the best in his retirement.

INTRODUCTION OF ASSOCIATES

With me today is the Deputy Director, Mr. William R. Barton; Mr. Joseph R. Carlon, Acting Assistant Director for Investigations; Mr. Edward J. Pollard, Assistant Director for Protective Operations; Mr. Jerry Parr, Assistant Director for Protective Research; Mr. Frederick N.

White, Jr., Assistant Director for Administration; and Mr. Frank Palmer, the Chief of our Financial Management Division. Since this is the first appearance before this committee of Mr. Barton in his capacity as Deputy Director, and Mr. Carlon as Acting Assistant Director for Investigations, I have included a short biographical sketch of each in my full introductory statement which, with your permission, I will submit for the record.

BUDGET REQUEST

The appropriation request for fiscal year 1984 totals $270,860,000, an increase of $30,398,000 over the proposed authorized level for fiscal year 1983. Included in this request are funds for 99 positions and $4,300,000 for an increase in work volume, $27,700,000 for physical protection of candidates and nominees who will be participating in the 1984 Presidential campaign, and $3,500,000 for protective support during the 1984 summer Olympics.

CONTINUED INCREASE IN ACTIVITIES

The past year has shown a continuing increase in the activities of the Service. During fiscal year 1982, we continued the added protective responsibility for another former President and his family, and five Presidential family members. At the same time, the problems of international terrorism required extraordinary measures with respect to the protection of foreign missions. Coupled with these activities has been an overall increase in the protective assignments pertaining to our permanent and temporary protectees and a continuing upward trend in investigative work volume.

Our request for personnel increases for fiscal year 1984 is reflective of these increased responsibilities and our need to have adequate numbers of personnel to meet protective and investigative requirements.

PROTECTIVE EFFORT

Our protective responsibilities continue to receive our highest priority. In this regard, we are continuously evaluating new equipment and methods to assist us in providing a safe and secure environment to those persons whom we protect.

Our 1982 protective efforts were highlighted by the successful conclusion of protection provided during several major activities attended by world leaders including the economic summit of developing countries, held in Cancun, Mexico; protection provided at the Williamsburg-Yorktown celebration; protection at the energy exposition in Knoxville, Tenn.; protection at the economic summit meeting in Versailles, France; protection at the bilateral talks in Bonn, West Germany; and protection associated with extensive travel itineraries of protectees campaigning in support of elections.

FOREIGN DIGNITARY PROTECTION

With regard to protection afforded foreign dignitaries visting this country, the Secret Service is presently averaging protection for two and one-half dignitaries per week. Last year, 128 foreign dignitaries were afforded Secret Service protection, each visiting an average of 4.9 days during fiscal year 1982. These numbers compare to protection provided for 94 visiting dignitaries who stayed an average of 4.5 days each during fiscal year 1981. Again this year we are experiencing an increase in average stay with 52 foreign dignitaries afforded protection through January, with each visit averaging 5.8 days during fiscal year 1983. In terms of protective days, this amounts to an increase of 49 percent in foreign dignitary protection from fiscal year 1981 to fiscal year 1982, and if this year's trend continues, we will experience a further increase of 44 percent from fiscal year 1982 to fiscal year 1983.

Nearly 90 percent of fiscal year 1982 foreign dignitary protection was provided by special agents assigned to our network of field offices. In fact, nearly 54 percent of all protection-related activities, including intelligence investigations, were performed by special agents assigned to our field districts.

I would like to emphasize this remarkable accomplishment given that fiscal year 1982 was a banner year in areas of our investigative mission, most notably in counterfeit suppression.

The events of the past year exemplify our ability to meet our protective and investigative mandates. In this regard, I am sure that you realize the backbone of our protective and investigative efforts are the dedicated men and women of the Secret Service who have given so unselfishly of themselves in the furtherance of our missions. I would like the committee to know that I am proud of their performance.

INVESTIGATIVE CASELOAD

Despite the heavy commitment of special agents to protective responsibilities, our field staff concluded another successful year in terms of cases closed and arrests made. During fiscal year 1982, a record $82.3 million in counterfeit currency was recovered by the U.S. Secret Service. This represents a 41-percent increase over the amount recovered in fiscal year 1981. Of this amount, $73.7 million or 90 percent was seized before it could be passed on the American public. This total represents the largest quantity of counterfeit currency ever seized by the Service. You can see from these numbers that without vigorous enforcement, losses to the public could amount to tens of millions of dollars, thereby destroying public confidence in national currency.

Additionally, the U.S. Secret Service closed a total of 156,000 investigations and made 8,836 arrests during fiscal year 1982. The conviction rate for all arrests that went to trial during fiscal year 1982 reached an all time high of 99.5 percent, and marked the fifth consecutive year that the conviction rate has reached or exceeded 99 percent. Also the number of arrests represents a 34-percent increase over fiscal year 1981.

SUMMARY

In summary, Mr. Chairman, fiscal year 1982 was an exceptionally busy year for the U.S. Secret Service. In addition to establishing a new record for counterfeiting seizures, investigative case activity was at its highest level in 5 years.

Fiscal year 1983 marks commencement of intensive planning and training for the 1984 Presidential campaign as well as other logistically-complex activities such as the 1984 summer Olympics.

The budget request before you is designed to permit the Service to continue carrying out our ongoing and new responsibilities. In this regard, I am grateful to this committee for the understanding and support which you have given the Service over the years and look forward to our continued work together.

PREPARED STATEMENT

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or the other members of the committee may have.

[The statement follows:]

STATEMENT OF JOHN R. SIMPSON

Mr. Chairman, I am pleased to appear before you and the other members of this Committee to present the annual appropriation request of the United States Secret Service and to report on our activities during the current and past fiscal years.

With me today is the Deputy Director, Mr. William R. Barton, Mr. Joseph R. Carlon, Acting Assistant Director for Investigations, Mr. Edward J. Pollard, Assistant Director for Protective Operations, Mr. Jerry Parr, Assistant Director for Protective Research, Mr. Frederick N. White, Jr., Assistant Director for Administration, and Mr. Frank Palmer, the Chief of our Financial Management Division. Since this is the first appearance before this Committee of Mr. Barton in his capacity as Deputy Director, and Mr. Carlon as Acting Assistant Director for Investigations, with your permission, I would like to insert a short biographical sketch of each.

William R. Barton

William R. Barton was appointed Deputy Director of the U. S. Secret Service in November 1982. Mr. Barton served in the United States Marine Corps from 1943 to 1945 and was appointed to the Secret Service in Washington, D.C. in February 1953. Following some eighteen years in the field and serving as Special Agent in Charge of our Milwaukee Field Office, Mr. Barton was appointed Inspector, Washington, D.C. in February 1971.

In February 1972, he was assigned as Special Agent in Charge of our Foreign Dignitary Protective Division and in July 1976 was promoted to Special Agent in Charge of the Dignitary Protective Division.

Since that time Mr. Barton has held the position of Deputy Assistant Director, Office of Inspection, Deputy Assistant Director, Office of Protective Research, Special Agent in Charge of the Los Angeles Field Office, and Assistant to the Director, Office of Training prior to his appointment as Deputy Director.

Mr. Barton was born on August 18, 1925 in Detroit, Michigan. He graduated from Michigan State University in March 1952 with a degree in Police Administration. Mr. Barton is a member of the International Association of Chiefs of Police.

Joseph R. Carlon

Joseph R. Carlon is Acting Assistant Director for the Office of Investigations. Previous to this appointment, Mr. Carlon held two Headquarters positions, that of Deputy Assistant Director for the Office of Investigations and Special Agent in Charge of the Counterfeit Division.

Mr. Carlon was born in San Pedro, California, on July 22, 1944.

He graduated from California State University at Los Angeles in 1967 with a Bachelor of Science degree in Police Science and Administration.

Before joining the Secret Service in 1969, Mr. Carlon served as a police officer for the city of Monterey Park, California.

During the past eleven years, Mr. Carlon has served in a variety of assignments primarily related to counterfeit investigations. He has supervised the counterfeit squads in Los Angeles, Boston, and most recently in New York City. Mr. Carlon has received a Secret Service and Treasury Department Special Achievement Award.

Mr. Carlon is an active member of the International Association of Chiefs of Police.

Retirement of Deputy Director Myron I. Weinstein

As you are aware, former Deputy Director Myron I. Weinstein recently retired after nearly 30 years of distinguished Government service. I would like to take this opportunity to express my appreciation for a job well done and to wish him well in the future.

The pending appropriation request for Fiscal Year 1984 totals $270,860,000, an increase of $30,398,000 over the proposed Fiscal Year 1983 level. Included in this request are funds for 99 positions and $4,300,000 for an increase in work volume, $27,700,000 for physical protection of candidates and nominees who will be participating in the 1984 Presidential Campaign, and $3,500,000 for protective support during the 1984 Summer Olympics.

The past year has shown a continuing increase in the activities of the Service. During Fiscal Year 1982 we continued the added protective responsibility for another former President and his family, and five Presidential family members. At the same time, the problems of international terrorism required extraordinary measures with respect to the protection of foreign missions. Coupled with these activities has been an overall increase in the protective assignments pertaining to our permanent and temporary protectees.

Our request for work volume increases for Fiscal Year 1984 is reflective of these increased responsibilities and our need to have adequate numbers of personnel to meet protective and investigative requirements.

Our protective responsibilities continue to receive our highest priority. In this regard, we are continuously evaluating new equipment and methods to assist us in providing a safe and secure environment to those persons whom we protect.

Our 1982 protective efforts were highlighted by the successful conclusion of protection provided during several major activities attended by world leaders including: the Economic Summit of Developing Countries, held in Cancun, Mexico; protection provided at the Williamsburg/Yorktown Celebration; protection at the Energy Exposition in Knoxville, Tennessee; protection at the Economic Summit Meeting in Versailles, France; protection at the Bilateral Talks in Bonn, West Germany; and protection associated with extensive travel itineraries of protectees campaigning in support of elections.

Protection associated with visiting foreign dignitaries continues at a high level. Significant demands were made in connection with the security requirements made necessary by the 36th meeting of the United Nations General Assembly in October and November of 1981; the Carribean Conference held in Miami, Florida in December 1981; the United Nations Disarmament Conference in New York, in June and July of 1982; and again for the 37th meeting of the United Nations General Assembly which commenced in September 1982.

Planning for logistics and effective use of available personnel for simultaneous events or events in tandem called for considerable amounts of overtime and travel out of district, requiring great sacrifices on the part of all Secret Service personnel.

Accomplishments of the past year demonstrate our ability to successfully fulfill our protective and investigative mandates. In this regard, I am sure you realize that the backbone of our protective and investigative efforts is the dedicated men and women of the Secret Service who have given so unselfishly of themselves in the furtherance of our mission. I would like the Committee to know that I am tremendously proud of their performance.

Assistance of Other Federal, State, and Local Law Enforcement Agencies

The Secret Service continues to rely heavily, especially during Presidential campaign years, on the assistance and cooperation of local, State and other Federal law enforcement agencies to provide maximum security for our protectees. Indeed, without this support our protective mission would be severely jeopardized, if not practically impossible, and I would like to commend them for their unselfish and excellent assistance.

Fiscal Year 1984 will be a crucial year for the Service in our relationships with State and local law enforcement agencies. That year will be a period of candidate and nominee protection for which we rely heavily upon these other law enforcement entities for assistance. Budget restraints are forcing these agencies to utilize their limited funds in areas they consider critical to the successful accomplishment of their own missions.

Candidate and Nominee Protection

In August 1982, the Service established a permanent division for candidate and nominee protection. This division is responsible for overseeing the operation of all candidate and nominee details and state primary coordinating centers during the Presidential campaign and other specialized protective missions.

Currently, we are in the process of evaluating our manpower, equipment and resource needs associated with the 1984 Presidential campaign. Several hundred agents and other law enforcement personnel who will engage in campaign activities will be trained during Fiscal Year 1983.

For Fiscal Year 1984, the Presidential campaign will have a major impact on overall protective travel. Included in the budget before you is funding for twelve candidate protective details.

The experience of past campaigns has shown that the Service's participation is being required at earlier points in the campaign. During the last campaign, our agents began protection of a candidate more than twelve months prior to the election. The funds requested in the budget are essential if we are to provide a secure environment for our protectees.

Summer Olympics

The 1984 Summer Olympics are scheduled to be held in Los Angeles, California in July 1984. The Service anticipates substantial protective requirements with visits of the President, Vice President and foreign heads of state or governments expected.

Protection of Foreign Heads of State or Government

The Secret Service is authorized by law to protect visiting foreign heads of state and heads of government, and at the direction of the President, other distinguished foreign visitors to the United States. Further, the President is specifically authorized to provide Secret Service protection to official representatives of the United States while performing special missions abroad.

During Fiscal Year 1982, the Service made preparations for 168 visiting foreign dignitaries. During these preparations, 21 dignitaries declined protection and 20 visits were cancelled. Actual physical protection was afforded to 127 dignitaries visiting the United States and its possessions.

The Caribbean Conference in Miami, the UN-36 and UN-37 in New York, and the United Nations Disarmament Conference in New York were handled successfully. During UN-36, which spanned Fiscal Years 1981 and 1982, 11 foreign dignitaries visited the United Nations General Assembly, seven dignitaries in September, Fiscal Year 1981, and four dignitaries in October, Fiscal Year 1982. During UN-37, which spanned Fiscal Years 1982 and 1983, 23 foreign dignitaries visited the United Nations General Assembly, 8 dignitaries in September, Fiscal Year 1982 and 15 dignitaries in October, Fiscal Year 1983.

The protection of foreign heads of state or government continues to be an increasingly demanding responsibility of the Secret Service and significant amounts of resources are devoted to this program. As of December 1, 1982, our Dignitary Protective Division has protected 24 foreign visitors who traveled to 35 cities since the fiscal year commenced. Additionally, the Service is planning for a 9 Nation Caribbean Conference in Miami, a 7 Nation Economic Summit in Williamsburg and UN-38 in New York.

Permanent Protection

During Fiscal Year 1982, the Secret Service provided permanent protection for the President and Mrs. Reagan, and their four children and one grandchild; Vice President and Mrs. Bush; former President Carter, Mrs. Carter, and Amy Carter; former Presidents Nixon and Ford and their spouses; former First Ladies Truman and Johnson, and Treasury Secretary Regan.

U. S. Secret Service Uniformed Division

The U. S. Secret Service Uniformed Division is charged with the protection of the Executive Mansion and grounds, protection of the New Executive Office Building, protection of the President and members of his immediate family, protection of the official residence of the Vice President as well as the Vice President and members of his immediate family, and the protection of foreign diplomatic missions located in the metropolitan area of the District of Columbia; and under certain circumstances, foreign missions located outside the metropolitan area of Washington.

During Fiscal Year 1982, the White House Branch Appointments Center cleared over 240,000 appointments. Our Uniformed Division tour detail conducted tours for nearly 760,000 visitors to the White House; in addition to screening all visitors, our magnetometer detail provided security for 171 special White House functions.

Our Foreign Missions Branch provided security coverage for 17 foreign dignitaries while they were in residence at the Blair

House, covered 327 Embassy receptions and responded to over 1,000 emergency calls. Additionally, our Counter Sniper Program unit covered 903 events, the Canine Explosive Detection Program unit performed 3,509 searches and the magnetometer detail conducted 354 screenings. The latter function represents a new role performed by the Uniformed Division. Since the attempt on President Reagan, during certain movements of the President, where security considerations warrant it, portable magnetometers accompany the Presidential detail to assist in ensuring the President's security. Our Uniformed Division personnel have been trained to use this equipment and are now a vital part of many protective movements.

I think those who are familiar with the U. S. Secret Service Uniformed Division will agree with me when I say it is the finest uniformed force of its kind in the world, and I am immensely proud of the high performance of the Uniformed Division staff.

Treasury Security Force

The Treasury Security Force, a uniformed branch under the direction of the Secret Service, is charged with the responsibility of protecting life and property at the Main Treasury Building and the Treasury Annex in Washington, D.C., in addition to providing assistance in various protective assignments.

Field Offices

During Fiscal Year 1982, the personnel in field offices continued to devote much of their time to protective activities. Special Agents assigned to field offices conducted advance surveys for both permanent and temporary protectees visiting cities throughout the country and augmented the protective details required for visiting foreign dignitaries. Of all protection-related hours worked, a full 53% of that total was provided by Special Agents assigned to field districts. Ever increasing protective requirements will demand the continued use of many investigative personnel in support of our protective mission.

The role of our investigative personnel in our protective mission may not be fully recognized. The impact of the attempted assassination on President Reagan is still being felt as evidenced by our intelligence caseload. Our investigative personnel will continue to spend increasing amounts of time in protective activities, particularly those related to protective intelligence. Cases closed in the protective intelligence area increased from 15,820 in 1981 to 17,354 in 1982. Also, arrests in this area increased from 606 in 1981 to 771 in 1982. Despite this heavy commitment of manpower to protection, the personnel in the field offices maintained a viable level of criminal enforcement during Fiscal Year 1982.

Overall Investigative Caseload

Our criminal investigative caseload continued to increase during Fiscal Year 1982. The 177,000 cases received for investigation represents a 15 percent increase over the 154,000 cases received in Fiscal Year 1981. The chart on the next page shows the total cases received for investigation over the past five years, as well as the most recent estimates of the number to be received in Fiscal Year 1983 and 1984 (Chart A).

Counterfeiting Activities

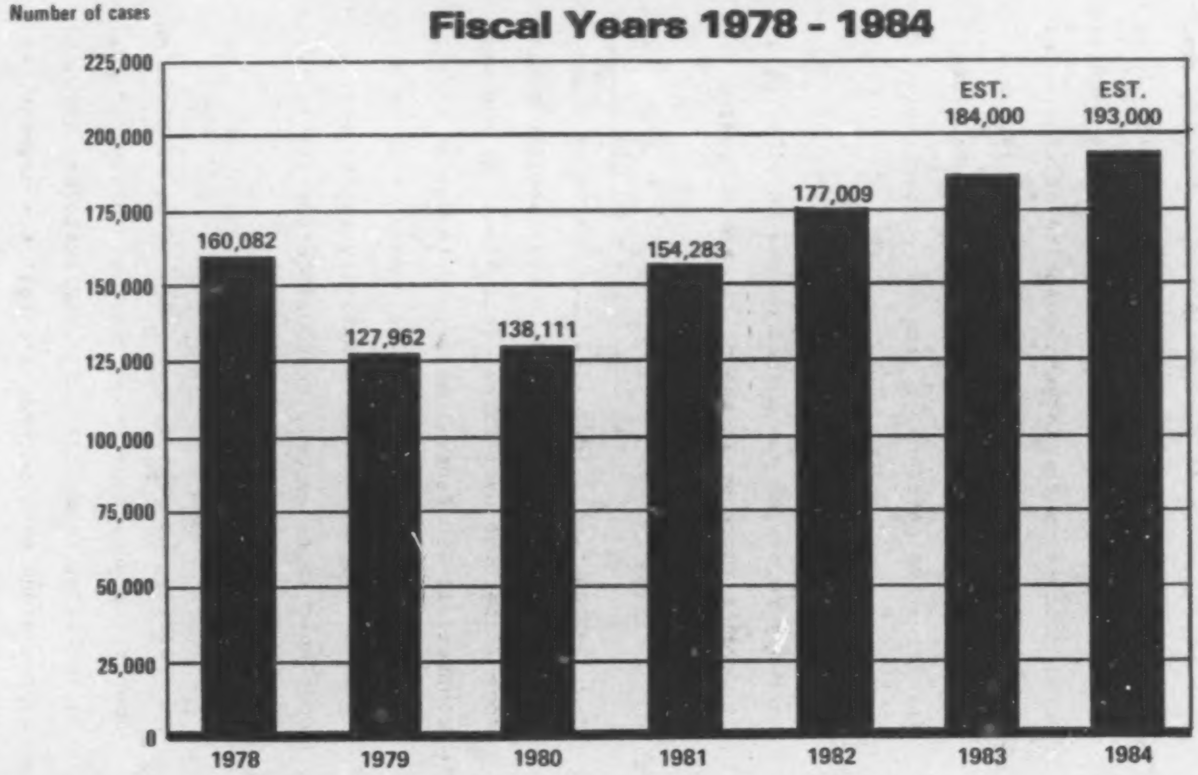
During Fiscal Year 1982, a record $82.3 million in counterfeit currency was recovered by the U. S. Secret Service.

Chart A

United States Secret Service

TOTAL CASES RECEIVED FOR INVESTIGATION

Fiscal Years 1978 - 1984



This represents a 41 percent increase over the amount recovered in Fiscal Year 1981. Of this amount, $73.7 million or ninety percent was seized before it could be passed on the American public. This total represents the largest quantity of counterfeit currency ever seized by the Service. We are particularly proud of this figure since it came about in spite of the demands placed on investigative personnel to augment protective activities.

A total of $8.6 million or 10 percent of the counterfeit currency recovered was passed on the American public reflecting a 24 percent increase in the dollar amount passed over the previous fiscal year.

During Fiscal Year 1982, the number of counterfeit $100 Federal Reserve Notes passed on the American public increased by some 18 percent over Fiscal Year 1981. At the same time, the counterfeit $50 Federal Reserve Note saw an increase of 70 percent, while counterfeit $20 Federal Reserve Notes increased by 12 percent. The increased activity in the $100 counterfeit note continues to be largely responsible for the increase in losses to the public.

During the past fiscal year, 86 counterfeit note plant operations were suppressed compared to 83 in Fiscal Year 1981 and 78 in Fiscal Year 1980. Since Fiscal Year 1980, plant suppressions have increased a full ten percent.

Of the $8.6 million passed on the American public, approximately 17 percent of the notes were traceable to origins in Colombia, South America; nearly $1.5 million dollars of counterfeit notes of Colombian origin were passed on the American public. This amount compared to the $1.1 million dollars of Colombian origin counterfeit losses to the public during Fiscal

Year 1981 represents a 28 percent increase in Colombian origin losses.

Also with regard to foreign-origin counterfeit, a task force of agents, assigned on a 30 day rotating temporary basis, was established in Milan, Italy, to work in conjunction with Italian authorities to combat the counterfeiting of U. S. currency. Italian originated counterfeit currency has been prevalent over the past few years and we have experienced these notes being passed domestically. Since implementation of the task force in July 1982, approximately two million dollars in counterfeit currency has been seized prior to distribution. The success of the task force in suppressing counterfeiting is an encouraging sign that we have invaluable cooperation from other countries in preserving the integrity of our national currency.

The initial statistical data available for the first month of Fiscal Year 1983 shows a loss to the public of $659,143 as compared to $657,522 for the first month of Fiscal Year 1982. A total of $8.4 million has been seized versus $4.3 million from the same period last year, a 94 percent increase over the 1982 level. A total of 24 counterfeit plants have been suppressed during the first quarter of Fiscal Year 1983 compared to 28 plant suppressions from the same period of Fiscal Year 1982. We do expect the number of new counterfeit issues to again increase during Fiscal Year 1983. There is no reason to believe the upward trend of counterfeiting will be reversed in the foreseeable future.

The following charts show for Fiscal Years 1976 through 1982 the dollar value of counterfeit notes seized before circulation, with the overall losses to the public and for Fiscal Year 1975 through 1982 the number and dollar value of the counterfeit notes passed (Charts B and C).

Chart B

United States Secret Service

COUNTERFEITING ACTIVITY

Fiscal Years 1976 - 1982

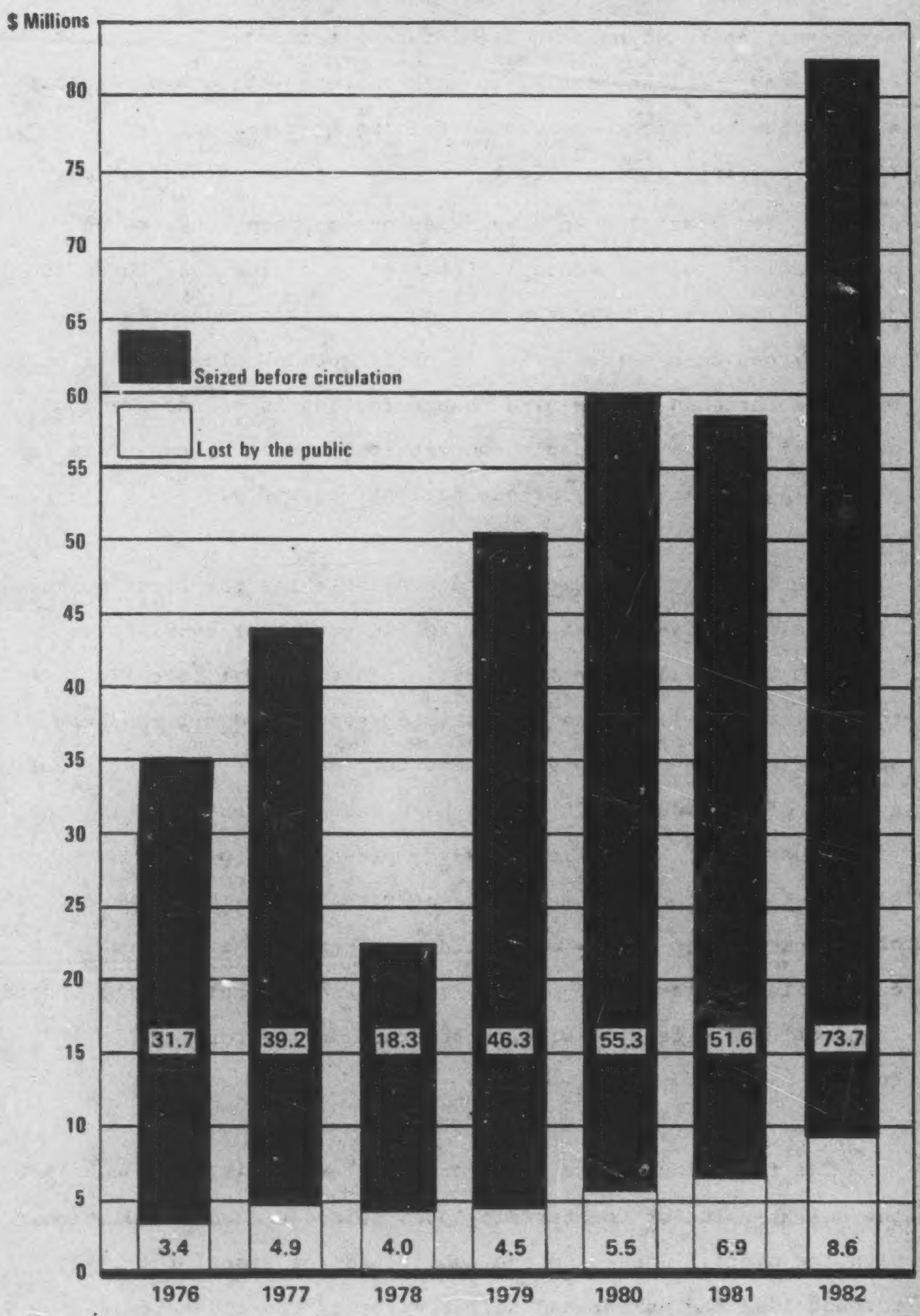
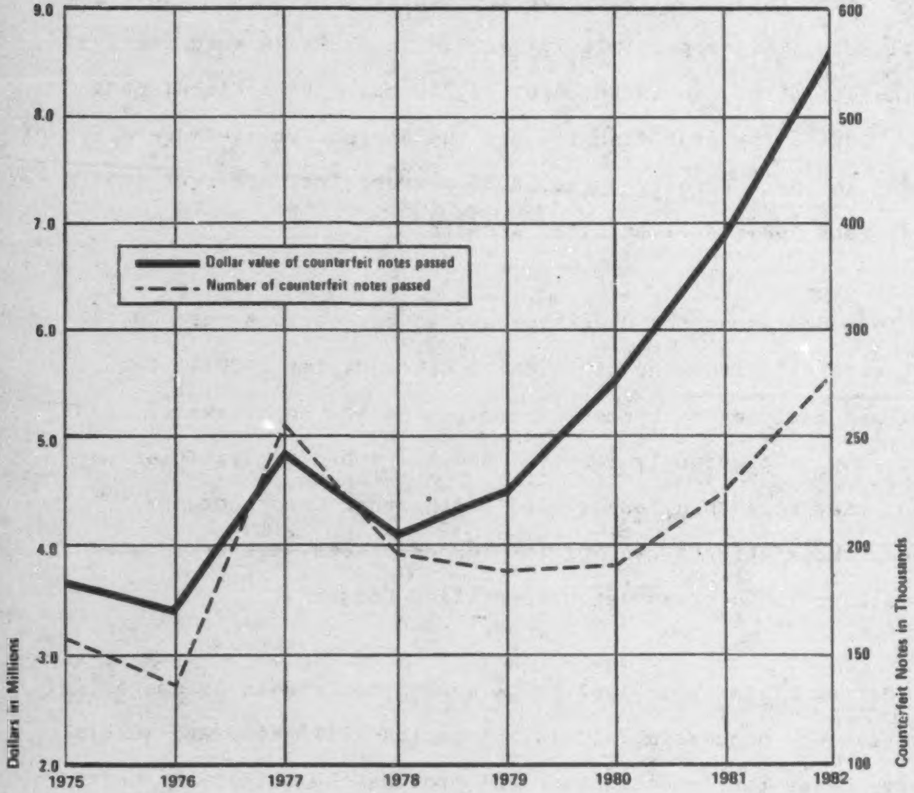


Chart C

United States Secret Service

COUNTERFEITING TRENDS

Fiscal Years 1975 - 1982



Check Forgery

Forgery of Government checks continues to be a significant area of enforcement activity for the Secret Service. During Fiscal Year 1982, approximately 101,000 check cases were received for investigation, an increase of 22,000 cases from Fiscal Year 1981. During the past fiscal year, the Secret Service made 4,652 arrests in check forgery cases, a 35 percent increase over the Fiscal Year 1981 level of 3,457 arrests.

Included among the check forgery investigations were 80,642 check referrals from the Division of Check Claims (DCC). Each check was analyzed in terms of handwriting and endorsements, and compared with previously received checks. When similarities were noted, they were then "associated" with other check forgers. Through these efforts many of the forged checks were associated with either known or as yet unidentified forgers.

During Fiscal Year 1982 steps were finalized to automate check forgery processing. This automation will associate multiple forgery cases for investigation and provide the ability to track and maintain control of pertinent reports, and original checks. The system will improve a number of reporting systems associated with this enforcement activity.

In addition, a new case management policy for check forgery investigations was developed by the Secret Service and implemented on October 1, 1982. The policy established procedures to promote efficient and productive check investigations while being sensitive to resource availability and prosecutive guidelines.

The following chart reflects the number of check cases received for investigation for Fiscal Years 1978 through 1982 with estimated numbers to be received in Fiscal Years 1983 and 1984 (Chart D).

Bond Forgery

During Fiscal Year 1982, the total number of bond referral cases decreased slightly from about 10,000 cases in Fiscal Year 1981 to 9,700 cases in Fiscal Year 1982. More stolen bonds are being recovered before they are forged, thereby reducing the number of bonds which appear as forgery referrals at a later date. Arrests for the same period increased from 110 during Fiscal Year 1981 to a total of 122 during Fiscal Year 1982.

The following chart shows the number of bond forgery cases received for investigation during Fiscal Years 1978 through 1982 with the estimated number of cases for Fiscal Years 1983 and 1984 (Chart E).

Fraud

In January of 1982, a Department of Justice Task Force on Food Coupon Fraud was created to deter major traffickers in U. S. Department of Agriculture (USDA) Food Coupons. During 1982, forty-two Secret Service Field Offices participated in fraudulent food coupon investigations. Twenty of these offices conducted lengthy undercover sting-type operations against local area violators.

On October 26, 1982 Department of the Treasury Order number 170-1 was signed authorizing the Secret Service to receive and analyze allegations of, and develop information and conduct investigations concerning, thefts and frauds involving any electronic transfer of funds (a) which belong to the Treasury Department or any subordinate agency; (b) for which the Department or any subordinate agency may be responsible or liable; or (c) with respect to which the Department or any subordinate agency may

Chart D

United States Secret Service

NUMBER OF FORGED CHECK CASES RECEIVED FOR INVESTIGATION

Fiscal Years 1978 - 1984

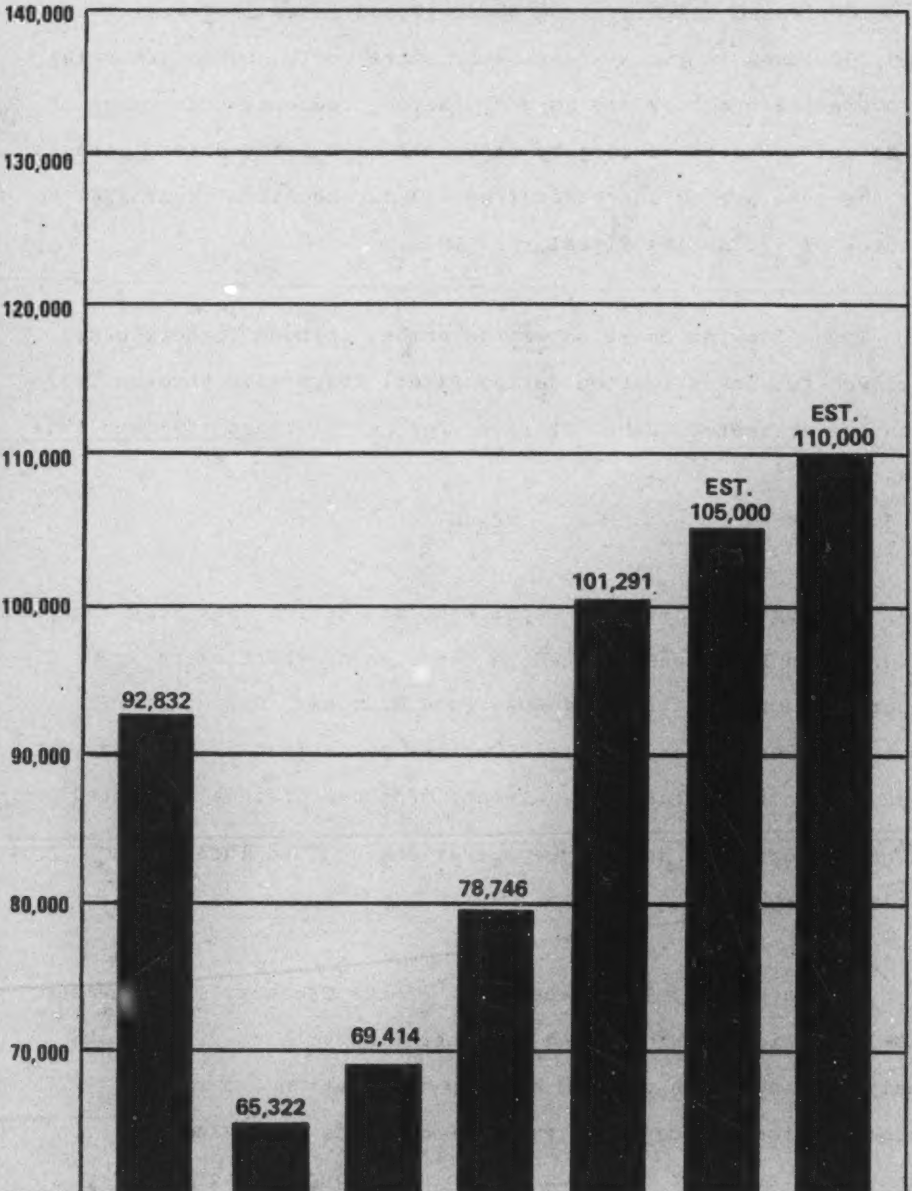
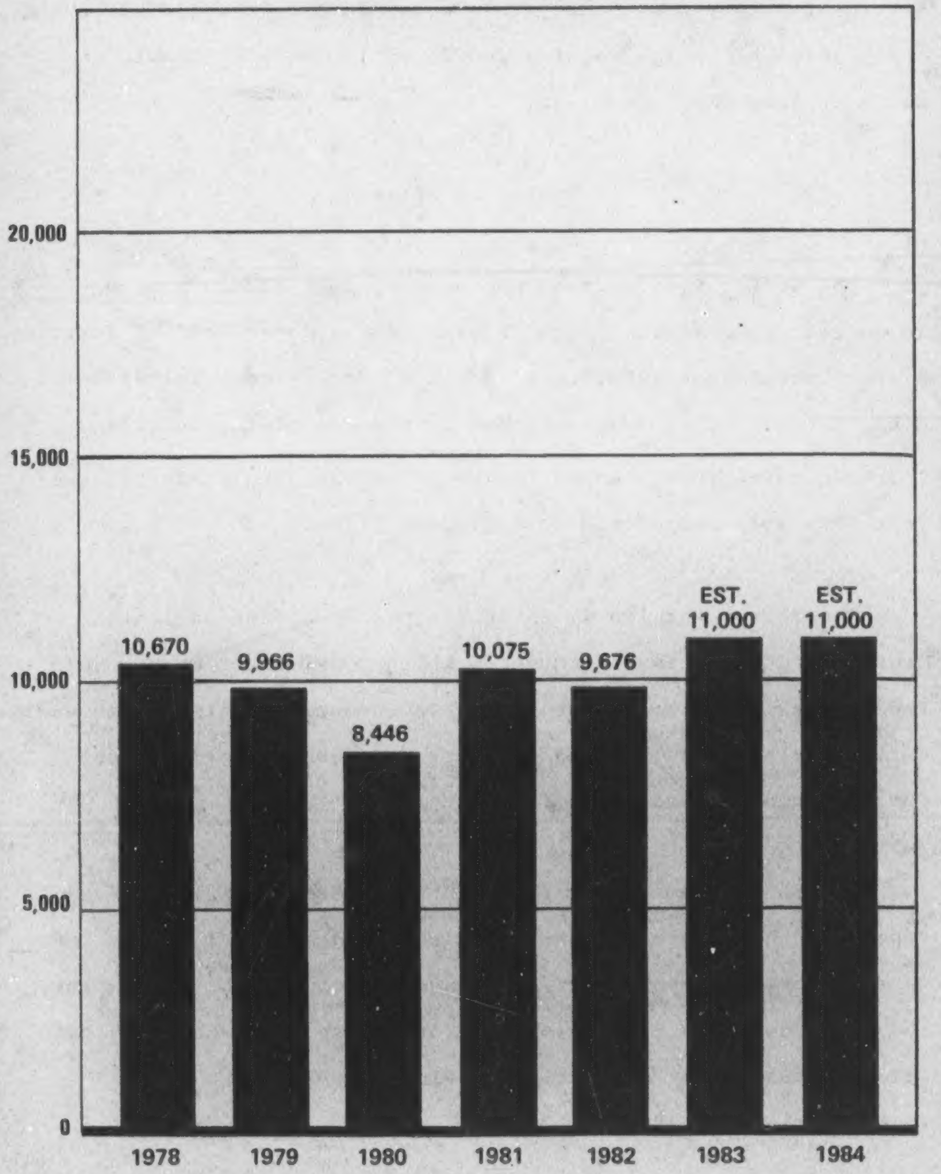


Chart E

United States Secret Service

NUMBER OF FORGED BOND CASES RECEIVED FOR INVESTIGATION

Fiscal Years 1978 - 1984



otherwise have, or have to defend against, a civil claim of any type.

Additionally, during Fiscal Year 1982 numerous computer match fraud cases and other fraud cases were referred to the Secret Service for investigation. These areas involve new jurisdictional opportunities for the Service and we will continue to help curb abuse of Government programs.

Organized Crime

The Secret Service has continued to participate in the Organized Crime Strike Force Program of the Department of Justice. During Fiscal Year 1982, seven National Organized Crime Planning Council visitations were attended by members of the Service. Thirteen cases investigated by the Secret Service during Fiscal Year 1982 were designated as organized crime.

The Secret Service is an active member of the National Organized Crime Planning Council, which consists of members of Federal law enforcement agencies. The council visits the several strike forces throughout the country and gathers information concerning organized crime interests.

Visits by the council to the Strike Force Districts have renewed enthusiasm and interest in the program. Our strike force representatives report that inter-agency cooperation has improved and, as a result, information that otherwise would not have been received has become available, proving beneficial to our investigative activities.

Equal Employment Opportunity

The Service has continued to pursue a vigorous program for the recruitment of qualified minority employees, as well as a program to prepare minority clerical employees for advancement into administrative and technical positions. As you know, the Service has a special need for minorities in the ranks of our Special Agents and uniformed officers. Accordingly, we have significant recruitment efforts for these categories of personnel so that we can compete with private industry for limited numbers of qualified minorities.

Freedom of Information and Privacy Acts

During Fiscal Year 1982, the Service processed 885 FOI requests and 91 Privacy Act requests. Additionally, our Legal Counsel processed 68 FOI administrative appeals and actively assisted in the litigation of 12 judicial appeals.

I would like to point out at this time that since the passage of the Freedom of Information and Privacy Acts in 1974, the Service has spent from $300,000 to well in excess of $400,000 each year in responding to the numerous requests. Of this amount, less than one-half of one percent is potentially recoverable through FOI/Privacy Act billings. Moreover, less than twenty-five percent of this fraction is actually ever received from the individuals involved.

As a result, since 1975, the Service has continually written off uncollectable receivables and continues to bear the financial burden of these acts exclusively.

Protective Research

During the past fiscal year the Service has made deliberate efforts to improve methods for determining the potential danger of persons who make threats or who exhibit an unusual interest in persons whom we are authorized to protect. Our efforts in this area became all the more important in the aftermath of the attempted assassination of President Reagan in March 1981. In the months following the attempt on President Reagan, the Service saw the most significant increase in intelligence cases in our history.

In March 1981, the Secret Service and the National Academy of Sciences (NAS) held a workshop on behavioral research in an effort to learn more about those who make threats to our protectees. The purpose of the workshop was to examine the "problems in assessing and managing dangerous behavior" and to present recommendations and suggestions to the Service. This effort is the largest single endeavor undertaken in relation to behavioral research within the Secret Service since the mid-60's.

Conferees of that workshop unanimously agreed that an external research advisory board should be created to oversee the development of a behavioral research capacity within the Secret Service. This external assistance would be a body of distinguished behavioral scientists, research psychologists and other professionals including clinical practitioners who would be available to help determine research priorities and assist us in framing a coherent and fully integrated approach to the problem of "dangerous behavior" assessment. This need was reinforced by recommendations included in Treasury Department General Counsel's management review of our procedures following the March 1981 attempt.

As resources become available, the Service continues to strive to meet these goals and fulfill recommendations made. The Service, like other enforcement bodies, relies heavily on the public and other organizations for its intelligence data. We continue to feel the impact of the FOI and Privacy Acts. As a result, greater amounts of resources must be expended to ensure adequate security for protective functions.

Training

In Fiscal Year 1981, the Secret Service started development of a Master Plan for the expansion of our training facility for protective training. During Fiscal Year 1982, funds in the amount of $1.518 million were approved for phase one of an expansion of the training facility. This phase will include almost two miles of roadway simulating actual road conditions for driver training as well as protective training and an instinctive firing range which will help law enforcement personnel to improve their skills.

James J. Rowley Secret Service Training Center

As you know, the primary advocate in initiating plans for our training facility located in Beltsvile, Maryland was former Director of the Secret Service, James J. Rowley. I am proud to tell you that Public Law 97-377, passed on December 21, 1982, authorized the name of the facility to be changed to the "James J. Rowley Secret Service Training Center."

Continued development of this training facility remains a top priority in terms of our intent to remain abreast of training needs essential to a secure environment for our protectees.

Summary

In summary, Mr. Chairman, the Secret Service continues to experience one of the most demanding periods in its history. The workload of the Service continued to expand and take on new dimensions this past year. The budget year we are now discussing will witness a continued increase in our efforts including the 1984 Presidential Campaign and 1984 Summer Olympics.

The budget request before you is designed to permit the Service to carry out its ongoing and new responsibilities. In this regard I am grateful to this Committee for the understanding and support which you have given us over the years. We look forward to continuing our work with you.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or the other members of the Committee may have.

TRIBUTE TO SECRET SERVICE EMPLOYEES

Senator ABDNOR. Thank you, Director Simpson. We appreciate having your testimony.

It has been, I know, a very, very interesting year for the Secret Service but I have to believe it is going to be more of a challenge next year when you talk about the Olympics and the Presidential election and all of that coming up.

I hope the initiatives that began last year are moving ahead. I have nothing but praise for the men and women who serve our country in the Secret Service. I know none of you have an easy job. I think 1984, as I say, is even going to be a more difficult year.

ADDITIONAL SPECIAL AGENT POSITIONS

Mr. Simpson, can you tell this committee how well you are progressing in regard to hiring those 200 additional agent personnel we funded in the second continuing resolution last year? Did we give you enough money to bring all 200 onboard?

Mr. SIMPSON. Yes, sir. You gave us enough money to bring them onboard in 1983. We will conclude the hiring of the 200 agents by September 30 of this fiscal year. Hopefully even before that but, at the very latest, September 30.

PROTECTION

Senator ABDNOR. Did you go into the Olympics, for instance, that must be mind boggling to you as to how you are going to offer protection. You do have certain levels you drop to, that we have to give protection to? Who gets protection from these other countries? How far down the line?

Mr. SIMPSON. Under public law, the Secret Service is responsible for heads of government and heads of state and those others whom the President may so designate. For instance, in the group of foreign dignitaries who came to the United States in 1982, Mr. Gromyko was offered protection by virtue of a Presidential order. Normally, however, we only cover heads of government and heads of state.

Senator ABDNOR. You have no idea how many may be coming. You must be ready to go. I do not know how you get these people around California. I have spent enough time in California to know what it is like at 5 o'clock to get around. I cannot imagine how it is going to be when you bring in hundreds of millions of people in for the Olympics. Not that you have to worry about all those, but you have to get around. You also have all the Presidential candidates that you are going to have to give protection to. How much does each candidate require, two, three people? How far do you go with this protection?

Mr. SIMPSON. Sir, we have a formula that I would be more than glad to provide to you under confidential cover. We do not intend to advertise that.

Senator ABDNOR. I am sorry. But they are protected, and I guess I was wondering if it went to the family also.

Mr. SIMPSON. No, sir, not until such time as they are the nominee of their party do we protect the spouses. This protection begins 120 days prior to the general election.

JAMES J. ROWLEY SECRET SERVICE TRAINING CENTER

Senator ABDNOR. It is going to take a lot of manpower to do all these things in 1984. We just want to make sure—I am amazed with your efforts to place all 200. But you will probably get more into detail later on that.

Last year we provided expansion of the Beltsville Training Center, and I enjoyed your ceremonies out there and was glad to be part of it. Last year you told us this was vital to your training efforts. I can verify that, having been out there.

I am wondering why you are not requesting additional funding for phase 2. I guess you have it in four phases. Do we have problems on this project?

Mr. SIMPSON. Well, in the longer statement that I submitted for the record, sir, we indicated that we are just as vitally concerned about phases 2, 3, and 4 of the Beltsville expansion as we were about phase 1. And I think that I would ask Madam Secretary to answer your question. I think she is a better witness than I.

Senator ABDNOR. Madam Secretary, we are happy to have you comment. I get very involved with areas we cover and Beltsville has a lot to offer. I was impressed. You have phase 1 rolling. What is going to happen to phase 2 or 3 and why do we not see anything in the budget? It sounds like I am the last of the big spenders, but this is not the place I think we ought to be cutting.

Ms. BEEBE. The Secret Service has an integrated plan for Beltsville that has been on the drawing board for several years. It is a phased plan. Parts of that are under construction now. In the fiscal year 1984 budget, the Secret Service did request funding for that project. However, because of higher priority program requirements such as the candidate and nominee program and 1984 summer Olympics, it was not included in their request. We have requested as part of this year's budget $800,000 to pursue a further consolidation of the headquarters into 1800 G Street.

In future budgets I am sure we will be speaking with the committee about the follow-on phases of the Beltsville project.

Senator ABDNOR. How much is the cost of phase 2?

Mr. BARTON. The second phase would cost approximately $3.1 million.

Senator ABDNOR. What will that give you?

Mr. BARTON. That would give us a new driving pad for our protective driving training, a utility building, and a facility for the training of our dogs used in explosives detection.

Senator ABDNOR. What do you use now?

Mr. BARTON. We use nothing out there at the present time. For our driving course, we are using the Beltsville airport which is slowly being phased out. We do not think it is going to last much longer, so at this point we are quite desperate.

Senator ABDNOR. I realize you have to weigh one against the other but I see the billions of dollars we spend in this Government that I question very seriously. It seems to me and I know you only have so many dollars, that this is a bigger problem than just you and the Treasury.

But we feel very strongly when we see $800 some billion spent——

Ms. BEEBE. There is no argument with the importance of having a very good training facility for the Secret Service.

Senator ABDNOR. You bet.

Ms. BEEBE. It is a matter of priorities. A judgment was made that these portions of the plan could be postponed 1 year and there are alternatives for the driving trainer in the short run. There are alternatives for the dog training in the short run, and it is critical that the Secret Service building downtown get consolidated. If we do not move now, we will lose our option on that building and that has been a long-standing priority of the Secret Service, to have their headquarters consolidated into one building.

Senator ABDNOR. How much will that cost?

Ms. BEEBE. $800,000.

PAYMENTS TO STATE AND LOCAL GOVERNMENTS

Senator ABDNOR. Fine. Thank you.

The Congress provided you with $15 million in the current fiscal year for reimbursement to State and local governments and of this amount $7 million was clearly specified as being for annual payments with the remaining $8 million being for catchup payments.

Why are you requesting only $1 million additional for annual payments in fiscal year 1984, and do you have some reason to expect a decrease in service from State and local governments?

Mr. WALKER. Mr. Chairman, in fact I believe the request in the previous year was $3.5 million. This year it is $1 million. From the figures you just stated, I think it is readily apparent that the bills that are furnished to us by New York City bear little, if any, relationship to the amounts that actually are appropriated. We have to take these bills and review them on a case-by-case basis and work with Congress in terms of paying these bills such as they might be authorized. Whether we request $3.5 million or whether we request $1 million or whether we request $100 seems to bear little relationship to the actual numbers we get in terms of the request. So we would be prepared to work with the committee in making whatever adjustments are necessary.

I might also point out that we have been seeking for sometime to have this particular reimbursement function shifted to the State Department. The need here that is being met does not squarely fall within the function of the Secret Service. It has to do with the protection of U.N. missions in New York by the New York City police authority which more appropriately falls within the ambit of the State Department than the Treasury Department or the Secret Service.

The Secret Service has no direct responsibility for protecting U.N. missions. We have been working within the executive branch to effect a transfer of this reimbursement function so that State can deal with this issue.

NEW INVESTIGATIVE JURISDICTION

Senator ABDNOR. I remember when we got into that last year in public works. I see where the Service has picked up new areas of responsibilities related to food stamps. I was out in Denver and stopped in the Secret Service office and was surprised to see the investigation they were doing in the area of food stamps. It needs looking into. Also electronic fund transfers and computer fraud.

Now, are these new investigative responsibilities worked out with regard to personnel requirements?

Mr. SIMPSON. Yes, Mr. Chairman. Our involvement in electronic funds transfer was the result of a Treasury memorandum signed by the Secretary giving us authority for any investigative responsibilities. It is too early to give you a definitive answer as to how that will impact on our workload. We assume that in the years to come we will be into a cashless society, where money is passed by electronic fund transfers to various financial institutions and that we will become more and more involved. And as we do, we might have to come to the committee and ask for help in the personnel area.

As far as the food stamp situation is concerned, what transpired there was based on the fact that we have one of the finest investigative organizations of any law enforcement agency. The Justice Department asked us to participate in a task force. In the initial stages they thought that many of the food stamps were counterfeit. Subsequent to that, they found out that most of the food stamps were not of a counterfeit nature but were being laundered through various institutions allegedly as legal financial transactions. What resulted is that by virtue of our investigative effort, we have made approximately 500 arrests and put a rather dramatic dent in these types of illegal operations. I think you probably remember the television show where they had a rather lengthy portion dedicated to illegal food stamps, showing particularly the Las Vegas area where we made an inordinate number of arrests and put a big dent in the operation out there.

As an aside, some of those food stamps were being passed in transactions to buy a house.

We have several letters of commendation from the Justice Department and various local jurisdictions regarding our participation in the task force.

Senator ABDNOR. It is a kind of a pilot program. You are not carrying it out wherever you have offices?

Mr. SIMPSON. We are working these investigations in about 42 geographic areas at this point in time, in varying degrees. Sometimes it is more predominant in one area than another. Area A may have more activity in that type of operation than area B. Because of that, area A will have more personnel dedicated to work on the problem.

Senator ABDNOR. Where you really concentrate can you see a big drop?

ELECTRONIC SECURITY

Mr. SIMPSON. We think we have done a good job.

Senator ABDNOR. I hope Justice and Agriculture and everyone else follows up.

One other question. Does the Secret Service have the electronic equipment and the up-to-date security system that it needs to defer possible terrorist attacks and inclusion of protective sites and electronic surveillance of the White House and other sensitive areas? How are you situated now?

Mr. SIMPSON. Mr. Chairman, we are in a constant renewal process. I would be more than glad to supply the information in executive session.

But just as an aside, what we are trying to do obviously is stay ahead of adversaries and their technology which unless we have the capability to do so, would give our adversaries an advantage that I do not think they deserve or that we should allow under any circumstances. So what we would be looking for in the way of equipment is to be able to stay ahead of the state of the art or at least akin to it.

Senator ABDNOR. In that respect, we are certainly willing to support you. If you have any additional information you would like to submit in writing, we would appreciate that.

The hours are going quickly. And I have a number of questions to submit to you in writing. I think it will be easier on your voice.

CONSOLIDATED BUILDING

I want to commend you again for the leadership you have given to the Secret Service. In the times you are living in, I think you are doing a great job with the manpower and responsibilities that you have.

Let me ask you, I wonder if the Service needs its own secure home building just like the FBI has, the Hoover Building. I am becoming a big spender, but can you tell us how long it will be before the Service needs it own secure headquarters complex?

Mr. SIMPSON. I think we can do it within the next 2 or 3 years, given that a few small details are taken care of. We are working toward that goal right now. We have taken over the seventh floor in the building at 1800 G Street. We now have the 7th, 8th, and 9th floors, and with the Department, we are working on the lower lobby area and hopefully the 10th floor. This will give us a rather good portion of the building. And I would say within the next 2 or 3 years we could easily occupy the entire building. We are looking for a consolidated building, for reasons everybody knows. It is more efficient. It is a money saver and it gives more in the way of security required by the business we are in. It also adds to the esprit de corps of an organization to have one building, as you know.

The Hoover Building, I am sure, helps the Bureau with the esprit de corps and it helps the operation run in a more efficient manner.

SPECIAL AGENT JOURNEYMAN LEVEL

Senator ABDNOR. Thank you very much.

There is one question I want to ask because it bothers me.

It is my understanding and the committee's understanding that the working grade for a Secret Service agent is at the GS-12 level. Since the FBI's working grade is a GS-13, and since we have been led to believe, and maybe I am wrong—I want you to correct me—that the Drug Enforcement Administration is working toward that same level for its agents, why is your grade lower than the rest of them?

Mr. SIMPSON. I am glad that you are going to let me save my voice but I am glad you asked the question.

As a matter of fact, we are in the process of putting together a paper to send to Mr. Walker's shop and ultimately to Ms. Beebe's area asking for the working grade of a Secret Service agent to be raised to a GS-13. We see absolutely no reason why we are not equal to and competitive with agencies like the FBI and DEA.

Senator ABDNOR. From what I know, I am inclined to agree with you. Thank you very much for your attendance today.

ADDITIONAL COMMITTEE QUESTIONS

The balance of the questions will be inserted in the record at this point.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

FEMALE AGENTS

Question. How many female agents does the Secret Service have at the current time?

Answer. At the current time we have 32 female special agents, 4 of whom have been hired since October. Letters of commitment have been sent to two more females who are scheduled to become special agents in the next few weeks.

Unfortunately, our current applicant pool does not include significant numbers of qualified females. It should also be noted that attrition among those agents hired in the last 5 years, excluding retirements, runs at 14 percent for females as opposed to 3 percent for males. Even though we are hit with the double problem of having fewer females to choose from and a higher loss rate among those we choose, I would like to assure this committee that we at the Service will continue our efforts in both college recruitment and the recruitment of those highly qualified female law enforcement officers already serving at State, local, and Federal levels.

FOREIGN FIELD OFFICES

Question. In fiscal year 1983 funding was provided for the establishment of foreign field offices. Could you give us a progress report?

Answer. Although the continuing resolution for fiscal year 1983 did mandate the Secret Service to establish foreign liaison offices to Bogota, Rome, and Hong Kong, no funds were specifically appropriated. Funding issues aside, we have made good progress thus far in setting the groundwork for the establishment of these offices. After conferring initially with the Department of State and in keeping with new guidelines, our first official contact will be with the ambassador at each of the three embassies. These preliminary but vital contacts are taking place at this very time and we will soon be in a position to report the reaction from each of the ambassadors as to Secret Service presence at their respective missions.

In the case of Hong Kong, it now appears that substantial cost savings can be realized (without compromising mission objectives) by pursuing the alternative location of Manila, Philippines. During recent weeks the Secret Service has been disturbed over the exorbitant and rising costs projected for a permanent office at Hong Kong. As the Department of State has already experienced, residential and office rentals in Hong Kong are among the highest in East Asia—a consideration which has motivated several agencies to relocate to Manila. Those agencies who did physically relocate apparently suffered no functional loss, vis-a-vis Hong Kong.

As a result we have taken a close look at Manila and are now convinced that it is the more advantageous of the two locations.

SAIC CONFERENCES

Question. Mr. Simpson, how long has it been since the Secret Service had a senior-agent-in-charge national conference?

Answer. In years past, the Secret Service actually held special agent-in-charge conferences on a national basis here in Washington, D.C. Practically speaking, we have since found that supervisory conferences which are conducted on a regional basis are more productive. There is a greater opportunity for one to one, personal contact where a wider range of issues can be discussed. In addition to a savings in cost, the special agents-in-charge have consistently preferred the regional conference over the national, although the latter does have the advantage of bringing everyone together at one given time. On that note, the Service has entertained the possibility of convening a national conference, perhaps on a biennial basis, at a location other than Washington, D.C.

FUNDING

Question. The budget has a one-time increase of $30 million for the 1984 campaign. If this were not a campaign year, would the increase you are receiving, less the $30 million, be enough?

Answer. The funding increase the Secret Service is now requesting for fiscal year 1984 is the result of compromises between what we feel is necessary for us to efficiently and effectively do our job and what others feel is necessary in light of the fiscal restraints placed upon them by the administration and by the needs of other competing Federal programs. In the course of this process there are, quite naturally, requests for additional positions, equipment, and specific programs which we feel are of high priority but which lose out before our request comes before the Congress.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

STATEMENT OF STEPHEN E. HIGGINS, DIRECTOR

ACCOMPANIED BY:

- JOHN M. WALKER, JR., ASSISTANT SECRETARY, ENFORCEMENT AND OPERATIONS
- CORA P. BEEBE, ASSISTANT SECRETARY, ADMINISTRATION
- ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS
- WILLIAM T. DRAKE, ASSISTANT DIRECTOR, REGULATORY ENFORCEMENT
- PHILLIP C. McGUIRE, ASSISTANT DIRECTOR, CRIMINAL ENFORCEMENT
- BARBARA P. POMEROY, ASSISTANT DIRECTOR, ADMINISTRATION
- PAUL R. GENTILLE, FINANCIAL MANAGER

INTRODUCTION

Senator ABDNOR. I certainly want to welcome Director Higgins to the committee as a full-fledged Director. Your statement says Acting Director. I will scratch the word "Acting" off.

I want to thank you. You are doing a great job. I want to apologize for not being at your swearing in, but you changed that by 30 minutes and I had a briefing so I had to miss it. But I was there in spirit.

Who wants to start off?

OPENING REMARKS BY MR. WALKER

Mr. WALKER. Mr. Chairman and members of the committee. It is a pleasure for me to appear before you in support of the annual appropriation request of the Bureau of Alcohol, Tobacco and Firearms for fiscal year 1984. With me today, I am very pleased to announce, as Secretary Beebe just announced, is the new Director of the Bureau of Alcohol, Tobacco and Firearms, Mr. Stephen E. Higgins. Steve has just been named permanent Director of the Bureau after acting in that capacity since March of last year. Mr. Chairman, we believe Steve is ideally suited for the job. His entire Federal career has been with the Bureau of Alcohol, Tobacco and Firearms. He joined ATF in 1961 as an inspector in Omaha, Nebr., and has distinguished himself in positions of increasing responsibility ever since then. A highlight of Steve's career was his receipt of the President's Meritorious Executive Rank Award in 1980. Also attending with me today at this hearing are key ATF staff members, Ms. Cora P. Beebe, Assistant Secretary for Administration, and Mr. Arthur D. Kallen, the Director of the Office of Budget and Program Analysis of the Department of the Treasury.

The fiscal year 1984 request is $157,122,000 and 2,874 average positions. There are two program increases in this request totaling $9,250,-

000. They are for the Presidential drug task forces and the 1984 summer Olympic games.

PRESIDENTIAL DRUG TASK FORCES

The Bureau of Alcohol, Tobacco and Firearms plays an important role in the daily battle against violent crime. Since being deployed in south Florida last July as part of the Vice President's Task Force, ATF agents have made a substantial contribution, in particular by investigating the illegal firearms trafficking that supports the drug trade. These agents perform a vital and dangerous function. Last December 2, ATF Special Agent Ariel Rios, while working undercover in Miami, was slain by drug smugglers before he could draw his gun in defense. Another ATF special agent, Alexander D'Atri, came to his assistance and was shot four times. Special Agent D'Atri has now recovered from his wounds. The valor, courage, and dedication of these agents are an inspiration to all law enforcement and remind us of the seriousness of the threat posed by these vicious criminal elements against whom we struggle.

ATF's efforts against violent crime will be expanded through participation in the 12 Presidential drug task forces announced last fall. Their investigations will be directed against outlaw motorcycle organizations, street and prison gangs, and other organized groups who illegally use or traffic in firearms and explosives to support and protect their illegal narcotics activities. These investigations will be valuable in securing the arrest and prosecution of gang members and narcotics traffickers for violations of Federal firearms and explosive statutes and in accumulating critical intelligence data on these violators.

SUMMER OLYMPIC GAMES

The 1984 summer Olympic games, which will be held in Los Angeles, Calif., present unique law enforcement security problems because of the diverse locations of the actual sporting events, the number of heads of state and other international VIP's scheduled to visit the Los Angeles area during that period, and the political unrest which exists in many parts of the world today. The games will be held at 22 different sites in the five county area in and around the city and county of Los Angeles.

Because security for the games is the primary responsibility of State and local authorities, the Federal role will be directed toward crime prevention and toward support of these State and local efforts. This role will require the participation of many Federal agencies. My office will provide the overall coordination of this effort for the Treasury Department and will oversee the support provided by the Bureau of Alcohol, Tobacco and Firearms as well as that provided by U.S. Customs and the U.S. Secret Service.

ATF's participation consists of three elements:

Investigation of firearms related violations and sources of terrorists' weapons;

Response to and investigation of major arsons and explosives related incidents; and

Assistance to foreign competitors and security personnel for compliance with all laws and regulations applicable to their importation of firearms.

ATF representatives are currently participating as active members of four Olympic Law Enforcement Security Planning Subcommittees: the Bomb and Bomb Threats Subcommittee, the International Entry Subcommittee, the Dignitary Protection Subcommittee, and the Intelligence Subcommittee.

ATF is requesting $2,126,000 to fund their part in providing security for the 1984 summer Olympics.

Mr. Chairman, this concludes my opening statement. I will now ask the Director, Bureau of Alcohol, Tobacco and Firearms, Mr. Stephen E. Higgins, to provide you with his prepared statement, and we will then be pleased to respond to questions you or other members of the committee may have.

PREPARED STATEMENT

Senator Abdnor. Mr. Higgins, we welcome you. I have your detailed statement. The entire statement will be made a part of the record. If you care to summarize, that is fine.

[The statement follows:]

STATEMENT OF STEPHEN E. HIGGINS

It is a privilege to appear before you in support of the FY 1984 budget request for the Bureau of Alcohol, Tobacco and Firearms.

Accompanying me are my associates Mr. William Drake, Assistant Director, Regulatory Enforcement; Mr. Phillip McGuire, Assistant Director, Criminal Enforcement; Ms. Barbara Pomeroy, Assistant Director, Administration; and Mr. Paul Gentille, Financial Manager.

The budget request for FY 1984 is $157,122,000 and 2,874 average positions. This request represents a net increase of $9,630,000 and 24 average positions over the proposed authorized level for FY 1983. This request consists of nonrecurring cost savings of $7,546,000 and 76 average positions, an increase of $7,926,000 to maintain current levels of operation, and program increases of $9,250,000 and 100 average positions dedicated to the FY 1984 Summer Olympic Games and the Presidential Drug Task Forces. These requirements are discussed in more detail in our FY 1984 budget justification.

REVITALIZATION EFFORTS/MANAGEMENT IMPROVEMENTS

Since Congress has directed that we use our appropriated funds in part to strengthen the Bureau's Criminal law enforcement capabilities, let me report to you on a number of initiatives completed or currently underway which are directed toward that objective.

The primary focus during the latter part of FY 1982 and during FY 1983 has been to replace needed support personnel and begin training newly hired professionals. As of March 5, 1983, our current onboard strength was 2,811. This is an increase of 146 employees when compared to onboard strength as of September 30, 1982.

Diminishing Federal resources over the last several years and especially last year, have resulted in a redoubling of the Bureau's efforts to improve productivity and thereby minimize future personnel requirements. These efforts fall into four major categories: proposed organizational changes, automation, improvements in resource utilization, and general management initiatives. The following overview discusses current enhancements in each area and related plans through the end of FY 1984.

Restructuring of the BATF Organization

Beginning in April 1982, a series of proposed organizational changes were submitted to the Treasury Department for approval. The initial proposal, which has since been approved, involved the consolidation of field operations from seven to five regions. Subsequent initiatives, forwarded late in 1982, addressed Headquarters activities. The first involved abolishing the Bureau's Technical Services Division as a separate unit; its law enforcement activities (e.g., firearms tracing) would be transferred to the Office of Criminal Enforcement, while its regulatory functions (e.g., firearms import applications) would move to the Office of Regulatory Enforcement. (As a partial consequence of these transfers, the Headquarters Criminal and Regulatory Enforcement activities were also proposed for reorganization, along program rather than functional lines.) A second proposed change under consideration involves the consolidation of the data processing, word processing and communications activities into a single division.

In addition to these streamlining efforts, the Bureau closed 40 posts of duty and area offices and opened 2 during FY 1982. During FY 1983, 22 have been closed to date, 2 more have been proposed for closing, and 2 have been opened.

Automation of Word Processes and Related Recordkeeping

Efforts have been underway for some time to identify and implement cost-effective applications of automated equipment. Current examples can be cited for both the operating and support activities. During FY 1982, manually stored alcoholic beverage labels were transferred to a micrographic system, which has significantly reduced record retrieval times in conjunction with health alerts, alleged instances of fraud, and possible trademark infringements. By the end of March 1983, regional offices will be tied by computer to Bureau Headquarters. This link will permit the direct input of data regarding the industries regulated by ATF, and is therefore expected to eliminate innumerable hours of staff time now required to produce manual reports as well as issue the licenses and permits required by law. It will also improve the timeliness of statistical reports, which are used by industry members in their corporate planning. Other major efforts center on (1) a major overhaul of the Criminal Enforcement management information system (known as CARS) by the close of the current fiscal year; and (2) the installation of automated data retrieval systems for various administrative tasks, including budget preparation, employee disciplinary and grievance records, and historical files of accidents, injuries and tort claims. In view of the wide potential for automation throughout the Bureau, efforts have also begun toward the gradual implementation of a Bureau-wide data base management system in FY 1984 and future years.

Resource Utilization

New methods are being developed for utilizing present employees more effectively. Two such projects are now under development: a product sampling program for imported distilled spirits (currently nearing completion), and the adoption of computer modeling to monitor excise tax compliance histories (to be implemented in FY 1984). In both instances, statistical analysis will be used to identify potential "problem" companies, and thereby project the most effective workforce deployment patterns.

General Management Initiatives

Several noteworthy initiatives of more general nature have also been implemented. Examples include (1) the inauguration of a periodic cycle of management reviews of Criminal Enforcement field offices, with a view toward identifying accomplishments and problems in each geographic area; and (2) the installation of a major productivity measurement system for regulatory operations.

In the following pages, I will discuss the Bureau's programs and accomplishments.

LAW ENFORCEMENT

The Office of Criminal Enforcement investigates violations of Federal criminal statutes relating to explosives, arson, firearms, cigarette smuggling, and alcohol. Investigative priorities are dictated by violent crime, organized criminal activity, multijurisdictional constraints, or a lack of jurisdictional authority by State or local law enforcement agencies. Investigations of bombings, attempted bombings, and arson-for-profit cases are emphasized. In firearms investigations, emphasis is focused on illegal sources of firearms for the criminal element, as well as those who use firearms in support of violent crime.

In cooperation with the Office of Regulatory Enforcement, Criminal Enforcement investigates organized crime violations of the FAA Act and devotes a minimal resource effort for continued suppression of illicit distilling ("moonshine") operations.

The Bureau's involvement in a national campaign to significantly reduce violent crime has been dramatically demonstrated in the past few months. In Miami, one of our agents was killed and another was seriously wounded in an exchange of gunfire as they and a covering team attempted to conclude a South Florida Task Force undercover investigation with the arrests of several narcotics traffickers. In Washington, D.C., during the attempted takeover of the Washington Monument by a man threatening to detonate 1,000 pounds of explosives, the Bureau's investigative assistance and technical expertise was highly praised by the other onsite law enforcement agencies. In fact, while the threat of detonation remained real, it was an ATF agent who approached the vehicle and took immediate action to neutralize the threat.

Criminal Enforcement personnel routinely provide technical investigative assistance, intelligence data, and training to other Federal, State, and local law enforcement agencies. The Bureau actively participates in the national strike force approach on organized crime by combining its enforcement efforts with other Federal agencies. Additionally, the Bureau has played a major role in the success of the Vice President's South Florida Task Force, and we anticipate similar involvement throughout fiscal years 1983 and 1984 in the 12 Drug Task Forces recently announced by the President.

Alcohol Program

The FAA Act and the Internal Revenue Code (IRC) are the primary statutes used by ATF to enforce laws relating to the production and distribution of alcohol. The FAA and IRC provide many administrative remedies as tools for ATF's regulation of the alcohol industry. Suspension, revocation, and offers-in-compromise are examples of remedies available to ATF. When there is evidence of organized crime involvement, significant tax fraud, or public corruption, Criminal Enforcement becomes involved in the investigation.

The objective of the legal alcohol industry program is to ensure the highest degree of voluntary compliance possible and deter the infiltration of criminal elements into the industry. To ensure fulfillment of this objective, the Bureau has developed the following strategies:

- Target industry members for investigation where non-compliance with Federal laws and regulations is strongly alleged.
- Conduct FAA Act investigations, based upon worthy allegations or intelligence, to ensure the integrity of state officials in control States engaged in the distribution of alcoholic beverages.
- Conduct legal alcohol enforcement training schools concentrating on violations of ancillary felony

statutes, e.g. Racketeer Influenced and Corrupt Organizations (RICO), Hobbs Act and mail fraud.

ATF is currently conducting an investigation involving officials of a large distillery, conspiring with others, to defraud the Federal Government by selling non-taxpaid liquor to private individuals and falsifying U.S. Customs documents to show the liquor destined for export, thereby exempting the liquor from Federal excise taxes. A single seizure of 23,748 cases of non-taxpaid liquor has been made. If the illegal scheme had gone undetected, $475,000 in Federal excise taxes and $356,000 in State taxes would have been evaded.

Another significant case under investigation involved wine fraud. Two individuals conspired to sell an inexpensive table wine, bearing counterfeit labels, purporting it to be a premium wine that sells for approximately $75-$100 per bottle.

The Alcohol Program also includes a minimal amount of resources to investigate illegal "moonshining" activity. This illicit activity has virtually been eradicated by the past efforts of the Bureau. However, we periodically detect violations committed by holders of Federal permits to manufacture gasohol. In these instances, alcohol is being sold as a beverage rather than being mixed with gasoline to produce gasohol. Our investigative efforts will be directed only toward illegal alcohol production and distribution violations that are beyond the resources and jurisdiction of State and local enforcement agencies and those investigations involving gasohol permittees illegally diverting alcohol for beverage purposes.

Firearms Program

Few contemporary issues generate such emotion, controversy, and polarization as firearms crime and control. We recognize the legitimacy of the wide diversity of views on the subject of firearms control, while realizing that concern over the violence associated with the criminal misuse of firearms constitutes a common bond linking together all parties to the controversy. Our Firearms Program deals specifically with the violence resulting from the criminal misuse of, or illegal trafficking in, firearms. Through our Crime Impact Program, we target criminal groups which constitute the major crime problems in the various geographic areas of the country. We use the Federal firearms laws to conduct investigations as well as assist State and local law enforcement authorities in the prosecution of crimes being committed by violent criminals, terrorists, narcotics traffickers, and the like.

During FY 1982, 8,567 firearms investigations were initiated, and 7,934 were completed. In addition, over 3,000 requests for applications for relief from disabilities were received and processed, 1,488 relief investigations were actually completed in the field, 1,400 technical firearms classification and determinations were made, and over 30,000 firearms traces were completed.

The following are just a few examples of the types of firearms investigations we focused on in our efforts against violent crime:

- ATF agents broke up a firearms theft ring operating in Indiana and Ohio which was responsible for the theft of over 1,000 firearms annually, mainly from gun shops.
- Agents recovered over 100 handguns and silencers which were illegally transported from Kentucky and Indiana into New York. The traffickers were responsible for moving over 1,500 firearms into New York before their capture. A number of these firearms have been recovered in the New York area after being used in violent crimes.
- The Miami Task Group broke up a burglary ring responsible for the theft of over $10 million worth of property each year.
- Agents seized 250 firearms, most of which were illegal machine guns, which were destined for drug traffickers in the Miami area.

South Florida Task Force Accomplishments

Also in fiscal year 1982, ATF began participating in the Vice President's South Florida Joint Task Force by detailing 45 agents to Miami. After the first 34 weeks of operation, our agents have compiled some very impressive statistics:

- 427 criminal investigations have been initiated
- 131 cases have been developed, involving 230 defendants
- 215 persons have been arrested, 95 have been indicted, and 65 have already been convicted
- 836 firearms have been taken into custody, of which 321 were Title II or gangster-type weapons.

We are proud of our contribution to the overall success of the Task Force and we are continuing our efforts there as long as needed.

Explosives Program

Since 1970, ATF has been mandated to enforce sections of criminal law relating to the criminal misuse of explosives. In this capacity, ATF has long recognized that the misuse of explosives materials, whether accidental or criminal, represents a serious threat to the general public. Correspondingly, the Bureau has established the detection, identification, and investigation of such misuse as a high priority.

Our basic approach encompasses both reactionary and preventive measures. For example, expeditious responses to bombings focus on the apprehension of those responsible for the incident that has occurred; undercover techniques and the recovery of stolen explosives often abort the potential for additional bombings; and finally, the utilization of computerized intelligence data to identify trends/patterns, and the investigation of unsafe or insecure storage of explosives, further contribute to the protection of persons and property and the apprehension of criminal violators.

ATF utilizes the statutory jurisdiction of Title XI of the Organized Crime Control Act of 1970, and applicable statutes of Title II of the Gun Control Act of 1968, to combat the criminal misuse of explosives. The application of ATF's "explosives jurisdiction" is directed toward the active investigation of criminal bombings, significant arson crimes and the reported theft of explosives; investigative assistance and training to State and local agencies in support of enforcement efforts to curtail violent criminal activity; and the protection of public safety from potential injury, death, or property damage arising from the criminal misuse of explosives, as well as the unsafe or insecure storage of explosives materials.

Available resources, including expert technical and laboratory capabilities and specialized investigative response teams to assist in the investigation of major explosives-related incidents nationwide, are judiciously utilized to protect interstate/foreign commerce against interference and interruption, resulting from criminal violence or potential hazards related to the improper use of explosives.

During fiscal year 1982, there were 877 bombings or attempted bombing incidents reported to ATF. There were 26 deaths, 101 injuries, and $9.9 million in reported property damage associated with these crimes. These figures will increase moderately as additional reports are forthcoming from the FBI reflecting explosives incidents not reported previously to ATF. Our overall accomplishments in FY 1982 are as follows: ATF initiated 1,724 explosives investigations, resulting in 276 defendants being recommended for prosecution. During this same period, 226 individuals were convicted.

The Bureau has developed an Advanced Explosives Investigative Techniques Course for State and local officers, to enhance their proficiency in conducting explosives investigations. This pilot course, developed under an LEAA program grant, was presented to 198 State and local officers in six separate schools, utilizing the facilities of the Federal Law Enforcement Training Center, in Glynco, Georgia.

The need for high quality explosives investigation training nationwide is best illustrated by the overwhelming response of public safety officials requesting the training, and the critiques received from the 198 students showed that the program was a great success.

The following cases are examples of significant results achieved in the Bureau's explosives program:

- Pikeville, Kentucky: On December 7, 1982, two of six defendants pled guilty in the Eastern Judicial District, Pikeville, Kentucky, for their role in the 1982 union bombings at the Ray Mac Coal Mine Company in Floyd County, Kentucky. One defendant pled guilty to dealing in explosives without a license, while another pled guilty to possession of a destructive device consisting of dynamite and electric blasting caps.

  This investigation stemmed from violence that erupted at the Ray Mac Coal Mine Company by striking United Mine Workers of America. From February through May of 1982, the nonunion mine operation was the target of numerous bombings, arson and shootings, resulting in over $2 million in damages. This joint investigation between ATF and local law enforcement authorities led to the indictment of six defendants on October 5, 1982.

  During the course of the investigation, undercover agents purchased from Philip Dale Moore over 200 pounds of high explosives and components for explosives devices. In May of 1982, Basil Ray Moore sold a destructive device consisting of dynamite and electric blasting caps to undercover agents.

- St. Louis, Missouri: On October 20, 1982, James A. Michaels III of Arnold, Missouri, was found guilty by jury trial in U.S. District Court, Little Rock, Arkansas, of one count of conspiracy. The conviction is the result of Michaels' indictment on March 23, 1982, for the organized crime revenge car bombing of Paul J. Leisure in St. Louis. Leisure, an official of Laborers Locals Union #42, was severely injured, losing both legs in the blast. The trial, which lasted 8 days, received extensive news coverage. Indicted along with Michaels on March 23, 1982, was Milton Russell Schepp, the former Chief of Police of the St. George, Missouri Police Department. The indictments and conviction were the result of a joint investigation by ATF, FBI, and the St. Louis County Police Department into a series of organized crime bombings in the St. Louis area. One of the victims was Michaels' father, and it was believed that the Leisure bombing was in retaliation for the bombing death of the father in September of 1980. Suspect Schepp has avoided apprehension and is currently a fugitive.

Arson Program

Until recently, ATF's participation in the investigation of an arson incident was predicated on the fact that explosives materials were used to effectuate the resulting fire and subsequent destruction of property. This type of arson crime clearly fell within the purview of ATF's explosives jurisdiction, and our response to such incidents was in fulfillment of a Congressional mandate to "protect interstate and foreign commerce against interference and interruption by reducing the hazard to persons and property arising from misuse and unsafe or insecure storage of explosives materials." However, because certain courts were reluctant to uphold ATF's jurisdiction in arson cases, it became necessary to amend the statute with language to specifically cover damage caused by fire as well as explosives. On October 12, 1982, the President signed into law The Anti-Arson Act of 1982 (P.L. 97-298) which closed this loophole that heretofore allowed certain arsonists to escape prosecution.

Its passage adds a new dimension to our enforcement efforts which simultaneously allows us to be more effective in addressing significant arson problems. ATF's arson enforcement approach is directed toward:

- Investigation of major "arson-for-profit" crimes (involving commercial and industrial, interstate activities) perpetrated by organized crime, white-collar criminals, "arson rings," and violent criminals.
- Training of State and local agencies in "arson-for-profit" investigative techniques, and laboratory examination of arson debris.
- Investigative assistance to State/local enforcement agencies experiencing a significant arson problem, especially when the nature and magnitude of the identified problem exceeds the jurisdiction or resource capability of such agencies.
- Promotion of the "task force" approach to combat the arson problem (i.e., coordinated, cooperative efforts by Federal, State and local authorities to investigate major arson crimes).

Although arson is basically a local problem, it is evident that a coordinated effort among Federal, State, and local agencies is required if the continuing arson "epidemic" is to be curtailed. Overall, ATF's arson program has been "selective" in that we actively investigate a very small percentage of the total arson crimes committed throughout the U.S. Nonetheless, we are confident that the focus of our investigative efforts, together with assistance provided to State/local authorities, is consistent with the Federal role required to combat the crime of arson.

During fiscal year 1982, ATF was involved in the investigation of 329 arson incidents, resulting in:

- 25 deaths, 91 injuries and estimated property damage in excess of $106.2 million.
- 87 defendants were recommended for prosecution and 75 defendants were convicted, with judicial proceedings currently pending against numerous others.

In addition to the apprehension and prosecution of violators, ATF utilizes a procedure to capture the "insurance dollars saved" through ATF's arson investigative efforts. During FY 1982, $35.3 million was "saved" in the sense that in the absence of effective law enforcement efforts, the insurance industry could potentially have been caused to "pay out" $35.3 million more in arson-related claims, thus creating a greater burden upon the premium-paying general public and the Nation's economy as a whole. It should also be noted that many of these respective dollar amounts will increase as the investigations reach various stages of completion.

Also, in fiscal year 1982, ATF continued its assistance to State and local authorities through the services of four National Response Teams, located in the Midwest, Northeast, Southeast, and Western Regions of the United States. These teams were activated in response to 16 incidents, involving 10 deaths, 28 injuries and in excess of $29.6 million in property damage. On three occasions, the response resulted in the solving of significant arson crimes; in two instances, the investigations revealed that the cause of these major explosions was accidental; six cases have been closed with no potential; and the remaining five incidents are being actively investigated at this time. Since August 1980, these teams have solved nearly 60 percent of the 45 incidents in which their services have been required.

During the past fiscal year, ATF also continued to emphasize the arson task force concept by establishing a full-time unit in Boston, Massachusetts. This decision was reached in response to a critical arson epidemic in the greater Boston area, which had exceeded the resource and jurisdictional capabilities of those State and local agencies affected. The task force concept, as developed by ATF, has proven itself to be very successful in addressing the arson problem in other major metropolitan areas such as Chicago, Los Angeles, Philadelphia and Houston. The Boston Arson Task Force is now fully operational and is effectively directing its efforts towards the Boston arson crime problem. During fiscal year 1983, the arson task force concept will be expanded to those selected geographical areas with identified significant arson problems.

The following cases are examples of significant results achieved in the Bureau's arson enforcement program.

- Los Angeles, California: On January 9, 1979, the Los Angeles Task Force targeted an Arab crime organization suspected of numerous restaurant arsons in the greater Los Angeles area. The arson-for-profit crimes committed by this organization totaled in excess of $10 million in damage. The ATF investigation resulted in the Federal indictment of Al-Mudarris (the principal in the organization) and seven other individuals on 22 counts involving RICO/arson, racketeering, mail fraud, and related conspiracy crimes.

  On June 11, 1982, after a 3 week jury trial, Paul Stechel, Khalil Khalaf and Michael Hensley, associates of Al-Mudarris in the arson-for-profit crime organization, were found guilty of multiple counts of RICO/arson, racketeering, mail fraud and related conspiracy charges. Co-defendant Eddie Nash, owner of a nightclub and restaurant burned by the organization, was acquitted.

  Primary defendant Anthony Al-Mudarris and associates Salah and Nabil Al-Mudarris had pled guilty to charges of mail fraud at the beginning of the trial. Salah Al-Mudarris and Nabil Al-Mudarris received 3 year prison sentences, with 6 months to serve in prison, 2 1/2 years suspended and 3 years probation. Both defendants were fined $1,000 and ordered to make restitution in the amount of $9,000.

Sentencing for the remaining defendants occurred on July 12, 1982. Anthony Al-Mudarris received a 5 year prison sentence and was fined $1,000. Paul Stechel and Mike Hensley received 5 year sentences with 6 months imprisonment, 4 1/2 years suspended and 5 years probation. Defendant Khalil Khalaf received a 4 year prison sentence.

- Van Nuys, California: On August 13, 1982, after 5 days of deliberation, a Federal jury in Los Angeles, California, found four Teamster officials guilty for their roles in three truck arsons that occurred in California and Connecticut in 1978. The 6 week trial resulted in the convictions of Sten Thordarson, Martin Fry, Craig Dunbar and Martin Salagado on Federal charges relating to arson, racketeering and embezzlement. The Teamster officials used union funds to finance the burning of the trucks. On October 25, 1982, the two defendants received 30 month Federal prison sentences and the other two received 2 year prison sentences.

  This highly publicized and controversial case was initiated in 1978 as a result of three truck burnings of a nonunion trucking firm called Red Transfer and Storage. The firm's trucks were "torched" in Oxnard and Van Nuys, California, as well as in Ridgefield, Connecticut. U.S. District Court Judge Robert Takasugi dismissed the original indictment in 1980, but was overruled by the Ninth Appellate Court in 1981, which remanded the case to the Central Judicial District of California in late 1981. A second indictment occurred and led to this successful prosecution.

- Miami Beach, Florida: On July 16, 1982, arson destroyed the White House Hotel located at 1451 Ocean Drive. Damages to the hotel exceeded $1 million. One of ATF's National Response Teams was activated to the site, resulting in the subsequent arrests of three defendants on multiple counts of arson, possession of fire bombs, and burglary with intent to commit a felony. Interrogations conducted during this investigation also cleared a number of smaller arsons committed by the trio. Further judicial action is pending.

PRESIDENTIAL DRUG TASK FORCES

On October 14, 1982, President Reagan announced that the Administration was creating 12 new regional task forces that would cover the entire country. The task forces will constitute a coordinated Federal effort against drug trafficking and organized crime throughout the nation. ATF resources will be directed against drug-related firearms and explosives violators, outlaw motorcycle organizations, prison gangs, and other organized groups involved in illegal narcotics-related activities. The gang members pose a serious threat to the public safety and are vulnerable to ATF because many are convicted felons who use or traffic in firearms and explosives in the furtherance of their criminal activities.

Investigative efforts will result in the arrest and prosecution of gang members for violations of the Federal firearms and explosives statutes and the accumulation of intelligence data on narcotics traffickers. In addition, the gangs' narcotics-related criminal activities will be disrupted. The Bureau is requesting 100 positions and $7,124,000 in support of this effort.

THE 1984 SUMMER OLYMPIC GAMES

As a result of a terrorist takeover of the 1972 Olympic Games in Munich, West Germany, security procedures have become an ever-increasing problem for law enforcement authorities at these events.

The 1984 Summer Olympic Games, which will be held in Los Angeles, California, present unique law enforcement security problems because of the diverse locations of the actual sporting events, the number of heads of state and other international VIP's scheduled to visit the Los Angeles area during that period, and the political unrest which exists in many parts of the world today. The Games will be held in various facilities scattered throughout a four-county area surrounding the city of Los Angeles.

Security for the Games is the primary responsibility of State and local authorities. The Federal role will be one of prevention and support to State and local efforts. To that end, ATF will redirect 83 agents and support personnel for a total of 70 days and is requesting $2,126,000 in operational resources to fund this endeavor.

ATF's strategy for security at the 1984 Summer Olympic Games consists of three elements:

- Investigation of firearms-related violations and sources of terrorists' weapons.
- Response to, and investigations of major arsons and explosives-related incidents.

- Assistance to foreign competitors and/or security personnel relative to their importation of firearms.

In the event of a terrorist attack, an ATF firearms investigative unit will respond by tracing any firearms recovered, and by assisting in the follow-up investigation and prosecution.

ATF will also furnish two fully-equipped National Response Teams (NRT) onsite at the Olympic Games, with an additional standby team, having a 24-hour response capability. These teams will be available to respond to any major arson or explosives-related incident occurring at an Olympic venue. The teams will work either in conjunction with local authorities or as an independent unit. Any ATF response will be coordinated with the command function having overall authority for the law enforcement responsibility at the Games.

The third area of prime concern to ATF is the importation of firearms by security personnel from foreign countries, as well as by athletes competing in the myriad shooting events which are a part of the Games. Specialists and technicians who are well versed in handling these matters will be available at the ports of entry, to ensure expeditious resolution of any technical problems in order to avoid any incident which could be embarrassing to the host country and/or the Olympic Committee.

ATF representatives are currently participating as active members of four Olympic Law Enforcement Security Planning Subcommittees; the Bomb and Bomb Threats (EOD) Subcommittee, the International Entry Subcommittee, the Dignitary Protection Subcommittee, and the Intelligence Subcommittee.

REGULATORY ENFORCEMENT

ATF's regulatory philosophy is to regulate only where needed, and then only to the extent necessary to accomplish the intent of the statutes.

Our major emphasis is to achieve voluntary compliance with the law and regulations. We recognize that compliance with the intent of the law and regulations is equally as important as compliance with the letter of the regulations. Lower levels of voluntary compliance are examined constructively, while failures to comply are viewed in light of the regulatory requirements, the act and the effect of non-compliance.

One of our objectives is greater selectivity in the utilization of resources to derive the greatest possible net benefit from resources committed to our programs. We try to gear the regulations and our activity directly to the degree of risk or jeopardy. We also match requirements and regulatory oversight to the "size" of the operation and the scope of the regulated activity. Smaller operations face fewer requirements than their larger counterparts.

We have established criteria for selection of targets for compliance efforts, and use statistical and narrative data to analyze potential workload. Such studies allow us to concentrate resources in sectors which most require attention.

One way in which we seek to maintain high compliance levels is the adoption of more effective methods of processing our workload. Several initiatives have been established to improve the productivity of our offices, both in the field and for managers and supervisors as well.

We are also committed to making our regulatory activity as profitable as possible, by maximizing revenue "return" and compliance "dividends" on the appropriated regulatory investment. For example, we have reached numerous industry members with great success by conducting Government/industry seminars, meeting in public forums with industry members to work with them to achieve voluntary compliance. These meetings help foster greater understanding of the Federal statutory and regulatory requirements. We invite State representatives to these seminars so there may be a clear understanding of Federal and State responsibilities. Everyone benefits as awareness of industry members' questions and concerns helps Federal and State regulators identify inefficiencies, such as, conflicting and/or duplicative Federal and State requirements.

Several major programs illustrate our efforts to reduce regulatory intrusion and to optimize benefits.

Transition from Joint Custody to All-in-Bond

For the greater part of this century this agency and its predecessors achieved high levels of compliance in the distilled spirits industry by means of "joint custody". Both the proprietor and the Government held custody of the spirits, and ATF personnel provided onsite supervision at distilled spirits plants. Joint custody has been replaced by a system we call "all-in-bond." This past year we completed the transition to a system which will have enormous impact on both the distilled spirits industry and the Bureau's regulation of the industry.

The Distilled Spirits Tax Revision Act of 1979 allowed ATF to implement and simplify the method for determining proper taxes and provided a means to achieve economies by permitting greater flexibility in direct day-to-day supervision of distilled spirits plants.

The Bureau faced the challenge of assuring continued collection of over $3 billion in excise taxes paid annually by the distilled spirits industry, and the protection of an additional $8 billion in potential excise taxes on spirits in storage, under a significantly different regulatory framework. With careful advance planning, the Bureau successfully managed the transition with a minimum of disruption to industry.

A multiyear certification program was established to test the reliability of each distilled spirits plant's internal records and inventory accountability. As an individual plant was certified, our assigned personnel were removed from the plant and complete custody of the facility was turned over to the proprietor.

We are continuing our efforts to apply modern technology to our revenue program. The first and second phases of the project to develop a mathematical model of revenue producing entities such as distilled spirits plants have been completed. A model of a standard plant has been developed and tested. This computer-based model uses a wide variety of operational information to analyze the probable level of compliance of any distilled spirits plant, and is expected to be an invaluable tool to aid in selecting plants for examination.

Market and Product Integrity

In all market and product integrity programs, the Bureau has one overriding goal: to provide maximum service to our constituents (the public and the industry members), while offering a minimum of disruption to the normal operation of the market.

Our strategy is to closely coordinate and monitor existing regulatory programs which implement the Federal Alcohol Administration (FAA) Act by assuring product integrity and an orderly marketplace. Our goal is to make market and product integrity examinations more systematic so that problems are detected at an early stage, or prevented altogether, thereby limiting any potentially adverse impact on the industry members involved or the general public.

Legal Alcohol Industry Strategy

One major part of our market integrity strategy is our Ownership and Control Investigations Program. Under the FAA Act, the Bureau is responsible for keeping unqualified persons out of the legal alcohol industry. The Criminal Enforcement Crime Impact Program, along with other crime commission type studies, revealed apparent evidence of organized crime involvement at the retail level. We believe it is our responsibility to determine just how involved criminal elements may be at the producer and supplier levels, where special business interests (including organized crime) may have infiltrated through hidden ownership and control after original permit qualification. As a result, we are placing more emphasis on disclosing instances where ownership and control of these enterprises are concealed. Through training and dissemination of information, we are making our personnel more alert to the potential of hidden interests. We are also highlighting the importance of what may seem to be routine qualification or change of control investigations to attune these personnel to possibilities of concealed interests. Hidden ownership, while not a separate program of itself, is an integral part of the overall FAA Act Compliance program. We also have continued our traditional trade practice program with substantial results in this past year.

In enforcing the FAA Act, ATF has attempted to aggressively pursue cases where major, serious violations are suspected, while taking a lenient approach in cases involving only technical, non-serious violations. We conducted investigations of unfair trade practice activities in the alcoholic beverage marketplace as a result of information we had discovered, as well as on the basis of complaints made by industry members. We have attempted to foster a spirit of cooperation among ATF, the alcoholic beverage industry, and State officials to ensure an orderly marketplace in which all competitors play by the same rules.

International Actions

The Bureau continues to face problems with respect to imported alcoholic beverages. Our efforts to correct those problems and promote stability in that market have been quite successful.

As the Committee knows, our regulatory compliance activities are directed toward domestic and imported products alike. It is our policy to ensure that all alcoholic beverages are accurately labeled and enjoy an equal opportunity for open competition in the U.S. market. By the same token, although we are aware that while it is not our mission to promote foreign trade, we do believe we have the responsibility to try to assist in harmonizing requirements. In providing such assistance, we have worked to eliminate foreign regulatory obstacles and non-tariff trade barriers which restrict U.S. access to export markets.

Other more directly responsible Federal agencies have come to realize that ATF's regulatory authority with respect to U.S. alcoholic beverage products and imports lends itself to involvement in international activities. We will continue to meet our responsibilities in these areas and to assist other U.S. Government agencies which may benefit from our expertise and experience in regulating the production and marketing of alcoholic beverage products.

Firearms Licensing and Compliance Programs

I would like to report to you on our Regulatory Firearms program, which includes both licensing and compliance elements. Licenses to manufacture, import, and sell firearms are required by the Gun Control Act of 1968 in order to provide for an orderly flow of legal firearms from the manufacturer to the retail sales outlet and to prevent the criminal misuse of firearms. In part, this orderly flow depends upon preventing certain "prohibited persons" from obtaining a firearms license. Prohibited persons include convicted felons, drug addicts and illegal aliens, not the law-abiding citizen.

This past year, we processed approximately 49,000 new applications and 168,000 renewal applications for licenses. Most processing of licenses takes place in seven firearms and explosives licensing sections. Applications examiners review all applications for completeness.

Examiners may request further information from the applicant if the form is incomplete or review identifies a questionable condition. Initial contacts with prospective licensees are generally by telephone, but field investigation may be requested if an FBI or TECS name check or other information indicates an irregularity. Since we feel that voluntary compliance with the Gun Control Act is greatly enhanced by educating the firearms dealers, who must work within its requirements, we also select dealer applicants for routine contacts. This presents an opportunity to explain the requirements of the Act and to respond to any questions or problems the dealer applicant may have.

The purpose of the Bureau's firearms compliance program is to maintain the integrity of the firearms recordkeeping system, to enhance crime gun tracing capabilities, and to reduce the potential for criminal misuse of a firearm. This is accomplished through selective field inspections, which not only ensure compliance with the law, but also provide information and assistance to dealers. The vast majority of dealers sincerely want to abide by the law, and thus ask many questions during the course of an inspection in an attempt to better understand its requirements. During a typical compliance inspection, we verify the firearms on hand against appropriate receipt and disposition records, especially noting any unaccounted for firearms. We also check disposition records to ensure that no firearms have been sold to convicted felons, drug addicts, illegal aliens, those persons court committed to mental institutions, adjudicated mental defectives, etc. When nonwillful discrepancies are found, we try to focus corrective action on assistance to the dealer, not admonitions for each small error. About 20 percent of the firearms dealer inspections yield recordkeeping discrepancies.

Accurate and complete licensee records increase the likelihood that, when we receive a request from a Federal, State, or local law enforcement agency to trace a firearm that has been used in a crime, we will be able to complete the trace. This past fiscal year, we conducted nearly 33,000 traces, of which over 23,500 (or 70 percent) were successfully completed. Many times a successful trace means a successful prosecution of a criminal offender. An unsuccessful trace can likewise be related to inaccurate or incomplete records.

Over the past few fiscal years, our inspection activity has become much more selective, and we have concentrated on large volume and poor compliance licensees.

We are firmly committed to assigning our highest priority to the use of our resources to combat the growth of violent crime in the United States. Thus, as no such purpose is served when legitimate businessmen and gun-owning citizens commit inadvertent technical violations, such violations are dealt with administratively.

We recognize our responsibilities to those citizens, and have chosen to put a significant portion of our Regulatory firearms resources into an educational campaign built around locally-held seminars. These seminars are held in major metropolitan areas with heavy concentrations of firearms licensees. General invitations are sent to all dealers and interested parties in those areas, including local Congressmen and State and local authorities. All segments of the Bureau participate in the seminars, with Regulatory Enforcement, Criminal Enforcement, and Chief Counsel on hand to answer participants' questions. The seminars have been enormously popular with local dealers and local law enforcement authorities who have attended.

Explosives Coordination Program

A trial program for holding explosives seminars in the various regions of the Bureau is being implemented. The goal is to include local representatives from Federal and State regulatory agencies at each seminar. Through these seminars and attendance at meetings of the national industry associations, we will be working to provide the least burdensome Federal regulation of explosives that can be achieved consistent with existing or enhanced levels of public safety.

The Interagency Committee on Explosives has been reactivated and meetings are scheduled with representatives from 20 Federal agencies. The Committee will continue to direct its efforts toward the elimination of the regulatory confusion resulting from the profusion of independently developed standards, definitions, and regulations promulgated by the various Federal agencies charged with the regulation of explosives.

Deregulation Philosophy

ATF is deeply committed to "deregulation" wherever possible. Historically, the industries with which we are concerned have been heavily regulated. Therefore, we continue to view deregulation as an important priority, notwithstanding the substantial progress we have made over the past several years. During FY 1982, we published ten notices of proposed rulemaking and seven Treasury decisions which were deregulatory in nature. In addition, nine government forms were eliminated, and we are in the process of reviewing twenty-two other forms for elimination.

One programmatic intent is to decrease the regulatory and paperwork burden on the industrial alcohol industry. Most regulatory requirements for this industry have remained unchanged for over 20 years. Our anticipated burden reduction for the project is estimated at 72,000 burden hours.

Other projects involve a complete review and recodification of regulations concerning wholesale liquor dealers, breweries, and wineries, with the intent of reducing requirements wherever possible. These projects should result in an annual reduction of approximately 66[illegible],000 burden hours.

While regulation of sensitive industries for which the Bureau has responsibility cannot be eliminated entirely, we believe that regulations and paperwork can be reduced while maintaining an efficient and effective administration of Federal statutes.

EQUAL OPPORTUNITY PROGRAM

Finally, but by no means the least important, I would like to give you a report on the equal opportunity activities of the Bureau. With both a hiring and promotion freeze in effect during FY 1982, we were unable to pursue earlier established goals.

Our primary effort has been the reemphasis of equal opportunity to the executives and managers in the Bureau. Each is again aware of his/her equal opportunity responsibilities and all are aware that their performance will be evaluated on how well they meet these responsibilities. We have moved as well to appoint regional equal opportunity managers and counselors where we suffered losses in order for the program to be available and operational for all Bureau employees. Under the Federal Equal Opportunity Recruitment Program (FEORP), we are seeking minority and women applicants. Finally, we have prepared and will distribute a multiyear affirmative action plan that details the Bureau's goals and objectives for the next 5 years.

Mr. Chairman and Members of the Subcommittee, this completes my opening statement. I will be happy to answer any questions you may have.

INTRODUCTION OF ASSOCIATES

Mr. HIGGINS. Thank you, Mr. Chairman. Thank you for the kind words. I will summarize briefly at this point.

It is a privilege to scratch the acting off the name and appear here in support of the fiscal year 1984 budget request for the Bureau of Alcohol, Tobacco and Firearms.

Accompanying me are my associates, Mr. William Drake, Assistant Director, Regulatory Enforcement; Mr. Phillip McGuire, Assistant Director, Criminal Enforcement; Ms. Barbara Pomeroy, Assistant Director, Administration; and Mr. Paul Gentille, Financial Manager. Since Mr. McGuire has not appeared before this subcommittee before, I would like to submit his biographical sketch for the record.

[The information follows:]

BIOGRAPHY OF PHILLIP C. MCGUIRE

Phillip C. McGuide, Assistant Director, Criminal Enforcement, came to the Bureau of Alcohol, Tobacco and Firearms (ATF) in 1962 as a special agent. He has served in numerous positions of increasing responsibility and prior to being named as Assistant Director in August 1982 served as Deputy Assistant Director for 18 months.

As Assistant Director, Criminal Enforcement, Mr. McGuide directs ATF criminal enforcement programs and investigations nationally against bombers, arsonists, cigarette smugglers, alcohol violators, and those who criminally possess, misure, or traffic in firearms.

Mr. McGuire has received numerous awards for both investigative and managerial competence and currently serves on numerous national organization law enforcement committees.

Mr. McGuire was born November 9, 1938, in Boone, N.C. and graduated from Appalachian State University. He resides in Burke, Va. with his wife and three children.

OPENING REMARKS BY MR. HIGGINS

Mr. HIGGINS. I would like to thank the committee for the expressions during the time of the death of Agent Ariel Rios. I know it meant a lot to the family and to the Bureau.

The budget request for fiscal year 1984 is $157,122,000 and 2,874 average positions. This request represents a net increase of $9,630,000 and 24 staff-years over the proposed authorized level for fiscal year 1983. The request consists of nonrecurring costs of $7,546,000 and 76 staff-years, $7,926,000 to maintain current levels of operation, and program increases of $9,250,000 and 100 staff-years dedicated to the 1984 summer Olympic games and the Presidential drug task forces. These requirements are discussed in more detail in our fiscal year 1984 budget justification.

REVITALIZATION/REORGANIZATION EFFORTS

Since Congress directed that we use our appropriated funds in part to strengthen the Bureau's criminal law enforcement capabilities, let me first briefly report to you on what has been accomplished to date, as well as future plans. Our primary focus during the latter part of fiscal year 1982 and to this point in fiscal year 1983 has been to replace needed support personnel, especially in the law enforcement area, since we lost a disproportionately high number of clerks and secretaries. As your committee is also aware, we have reduced the number of regulatory and administrative regions from seven to five and implemented a number of initiatives designed to reduce overhead costs to the absolute minimum necessary. Included in these efforts are increased automation, improvements in resource utilization, and general management initiatives. These areas are discussed at length in my general statement.

CRIMINAL ENFORCEMENT

The Office of Criminal Enforcement investigates violations of Federal criminal statutes relating to explosives, arson, firearms, cigarette smuggling, and alcohol. Our investigative priorities take into consideration the presence of violent crime, organized criminal activity, multijurisdictional constraints, or a lack of jurisdictional authority by State or local law enforcement agencies. Investigations of bombings, attempted bombings, and arson for profit cases are emphasized. In firearms investigations, emphasis is focused on illegal sources of firearms for the criminal element, as well as on those who use firearms to commit violent crimes.

FIREARMS PROGRAM

While administering the Nation's firearms laws has often placed the Bureau in the center of controversy, there does seem to be a common level of concern with respect to the violence associated with the criminal misuse of firearms. Our firearms program deals specifically with the violence resulting from this criminal misuse of, or illegal trafficking in, firearms. Through our crime impact program, we target those criminal groups which constitute the major crime problems in various geographic areas of the country. We use the Federal firearms laws to investigate as well as to assist State and local law enforcement authorities in the prosecution of crimes being committed by violent criminals, terrorists, narcotics traffickers, outlaw motorcycle gang members, and the like.

SOUTH FLORIDA TASK FORCE ACCOMPLISHMENTS

During fiscal year 1982, we began participating in the Vice President's South Florida Joint Task Force by detailing 45 agents to Miami. After the first 34 weeks of operations, our agents have compiled some very impressive statistics: 427 criminal investigations initiated, 131 cases developed involving 230 defendants, 215 arrests, 95 indictments and 65 convictions and 836 firearms taken into custody, of which 321 were title II weapons.

We are proud of our contribution to the overall success of the task force and plan to continue our efforts there as long as needed.

EXPLOSIVES PROGRAM

Since 1970, ATF has been mandated to enforce laws relating to the criminal misuse of explosives. In this capacity, we have long recognized that the misuse of explosives materials whether accidential or as criminal reprisal is a serious threat to the general public. Correspondingly, the Bureau has established the detection, identification, and investigation of such misuse as a high priority.

Our basic approach encompasses both reactionary and preventive measures. For example, we quickly respond to bombings and focus on the apprehension of those responsible for them; undercover techniques and the recovery of stolen explosives often abort the potential for additional bombings; and finally, the utilization of computerized intelligence data to identify patterns, and the investigation of unsafe or insecure storage of explosives, further contribute to the protection of persons and property and the apprehension of criminal violators.

ARSON PROGRAM

Until very recently, ATF's participation in the investigation of an arson incident was predicated on the fact that explosives materials were used to cause the resulting fire and subsequent destruction of property. This type of arson crime clearly fell within our explosives jurisdiction, and our response to such incidents was in fulfillment of a congressional mandate. However, because certain courts were reluctant to uphold our jurisdiction in certain types of arson cases, the statute was amended with language to specifically cover damage caused by fire as well as explosives. On October 12, 1982, the President signed the Anti-Arson Act of 1982, closing the loophole that, heretofore, allowed certain arsonists to escape prosecution.

PRESIDENTIAL DRUG TASK FORCES

On October 14, 1982, President Reagan announced the creation of 12 new regional task forces that would cover the entire country. As the committee knows, the task forces will constitute a coordinated Federal effort against drug trafficking and organized crime throughout the Nation. ATF resources will be directed specifically against drug-related firearms and explosives violators, outlaw motorcycle organizations, prison gangs, and other organized groups involved in illegal narcotics related activities. The Bureau is requesting 100 positions and $7,124,000 in support of that effort.

SUMMER OLYMPIC GAMES

As a result of a terrorist takeover of the 1972 Olympic games in Munich, West Germany, security procedures have become an ever-increasing problem for law enforcement authorities at Olympic events. Although the 1984 summer Olympic games' security is the primary responsibility of State and local authorities, the Federal role will be one of prevention and support of State and local efforts. To that end, ATF will redirect 83 agents and support personnel for a total of 70 days and is requesting $2,126,000 in operational resources to fund this endeavor.

REGULATORY ENFORCEMENT

ATF's regulatory philosophy is to regulate only where needed, and then only to the extent necessary to accomplish the intent of the statutes. Historically, the industries with which we are concerned have been heavily regulated. Therefore, we continue to view deregulation as an important priority, notwithstanding the substantial progress we have made over the past several years. During fiscal year 1982, we published 10 notices of proposed rulemaking and 7 Treasury decisions which were deregulatory in nature. In addition, 9 Government forms were eliminated, and we are in the process of reviewing 22 others.

Another regulatory priority is greater selectivity in utilizing resources to derive the greatest possible net benefit from resources committed to our program. We try to gear the regulations and our inspection activity directly to the degree of risk or jeopardy and to the size of the operation.

FIREARMS LICENSING AND COMPLIANCE PROGRAM

I would like to report to you on our regulatory firearms program, which includes both licensing and compliance elements. Last year we processed approximately 49,000 new license applications and 168,000 renewals.

The purpose of our compliance program is to maintain the integrity of the firearms recordkeeping system, enhance crime gun tracing capabilities, and reduce the potential for criminal misuse of a firearm. This is accomplished through selective field inspections. The vast majority of dealers sincerely want to abide by the law, as is evidenced by the fact that they ask many questions during the course of an inspection in an attempt to better understand requirements. During a typical compliance inspection, we verify firearms on hand against appropriate receipt and disposition records, and check disposition records to insure that no firearms have been sold to prohibited persons. When nonwillful discrepancies are found, we try to focus corrective action on assistance to the dealer, not admonition for each small error. Over the past few years, our inspection activity has become much more selective.

We are firmly committed to assigning our highest priority to the use of our resources to combat the growth of violent crime in the United States. When legitimate businessmen and gun-owning citizens commit inadvertent technical violations, such violations are dealt with administratively. We recognize our responsibilities to those citizens, and have chosen to put a significant portion of our regulatory firearms resources into an educational campaign built around local seminars.

EQUAL OPPORTUNITY PROGRAM

Finally, but by no means the least important, I would like to give you a report on the equal opportunity activities of the Bureau. With both a hiring and promotion freeze in effect during fiscal year 1982, we were unable to pursue earlier established goals.

Our primary effort now has been to reemphasis equal opportunity to the executives and managers in the Bureau. Each is again aware of his/her equal opportunity responsibilities and all are aware that their performance will be evaluated on how well they meet these responsibilities. We have moved as well to appoint regional equal opportunity managers and counselors where we suffered losses in order for the program to be available and operational for all Bureau employees. Under the Federal equal opportunity recruitment program—FEORP—we are actively seeking minority and women applicants.

Mr. Chairman and members of the committee, this completes my summary statement. I will be happy to answer any questions you may have.

ALCOHOL AND TOBACCO TAX REVENUES

Senator **Abdnor**. Again I say we are happy to have you back. A year ago you were Acting Director. Today you are Director. This proves the confidence everyone had in you, that you had the managerial talent to do the job. And we are proud of the job the BATF has been doing over this last year.

I do have a few questions, even though we are going beyond the noon hour. I guess you do not mind.

Your budget projects $10.3 billion in alcohol and tobacco excise revenues to be collected in fiscal year 1984. How much does it cost your Bureau to collect these revenues?

Mr. **Higgins**. The total amount, and we will expand on the answer for the written record, that we spend in the alcohol and tobacco area is about $47 million, and that includes more than simply revenue protection. But I think those figures are probably best for the use during this hearing.

[The information follows:]

Alcohol and Tobacco Programs

The following represents a total cost of the Bureau's alcohol and tobacco programs for fiscal year 1984 which includes the collection of revenue:

Programs	
Regulatory enforcement:	
Alcohol	$35,468,000
Tobacco	1,305,000
Subtotal	36,773,000
Criminal enforcement:	
Alcohol	3,317,000
Tobacco	
Subtotal	3,317,000
Related program support	4,174,000
Administrative support	3,480,000
Total	47,744,000

MAXIMIZE REVENUES COLLECTED

Senator **Abdnor**. $47 million?

Mr. **Higgins**. $47.7 million. That figures out to be, on the basis of over $10 billion, $1 to every $216 collected. That is a conservative estimate because we have lumped some costs into the $47 million that do not directly relate to revenue collection.

Ms. **Beebe**. Mr. Chairman, I would like to add that we have been working with the committee informally to see if we cannot maximize the revenues collected in that area. While last year we were precluded from using EFT, we would like to explore with the committee the possibility of using a lock box arrangement so that when the revenues are received, they can be deposited more quickly into the account of the Government.

Senator ABDNOR. Also, Mr. Higgins, your 1984 budget calls for the ATF to have 406 field inspectors. Now, at this manpower level, can you guarantee to this committee that all taxes due are going to be collected?

Mr. HIGGINS. Mr. Chairman, I suppose whatever that figure was, that I would be reluctant to guarantee that all the taxes will be collected, even if we had 10 times that amount. One point is that the 406 inspectors do many more things than simply protect the revenues. They are also responsible for making firearms and explosives inspections.

What we have attempted to do, given retraining and what has been the historically high compliance within the regulated industry, is maintain the best utilization of the people that we have given the various competing priorities. I would say if the voluntary compliance level stays high, then the number of people we have will be adequate. I stress that it is a minimum level, but I think that will be adequate with a high compliance level.

Senator ABDNOR. What would affect the compliance level?

Mr. HIGGINS. Well, one of the things that could obviously affect it, and one which we are seeing a little evidence of now, is that some businesses are not doing as well. Therefore, they may try to save by skimming on their taxes.

FEDERAL ALCOHOL ADMINISTRATION ACT

Senator ABDNOR. It may be an easier job of collecting revenues.

Last year, this committee and Chairman Roybal's committee determined that $15 million would be earmarked in the ATF budget for enforcement of the Federal Alcohol Act. Where is the $15 million in the budget? You took that money out of your budget knowing how Congress feels about that?

Mr. WALKER. No money has been taken from the budget for that. This budget envisions a maintenance of the same level of activity in carrying out the provisions of the FAA Act.

FIREARMS DEALERS LICENSE RENEWAL

Senator ABDNOR. We do not see it as a line item but we are happy to see that it will stay at this level.

This past year I was pleased to watch you get rid of the requirement that Federal firearm dealers had to renew their licenses every year. Your proposal to only require renewal every 3 years goes along with the President's effort to get Government off the backs of our citizens.

What is the status of this?

Mr. HIGGINS. We are in the final stages of completing that rulemaking process. We have to get OMB clearance for the new license form to be used. Assuming that does not take an inordinate amount of time, we will be able to go to that new system sometime during the latter part of this summer. We are projecting the month of August.

ANTI-ARSON ACT OF 1982

Senator ABDNOR. One last question. I do not know if Senator Mattingly has any questions.

This deals with arson. The Anti-Arson Act of 1982 should have a significant impact on ATF's ability to have some effect on these arson crimes. Can you tell us briefly about your view of the ATF role as the lead Federal agency in combatting arson?

Mr. HIGGINS. Yes; I could tell you that but the person best able to tell you that is Mr. McGuire.

Mr. MCGUIRE. The passage of the Anti-Arson Act of 1982 will save us a great deal of time and effort in proving a crime was committed. It was our experience in the past that we had to back out of approximately 30 percent of our investigations because of the lack of clarity in the previous bill and the reluctance of the courts to express the fact that it was in fact a violation of the Explosives Control Act. The new law, while not greatly broadening the figures in the arson area, will more clearly define the Federal role. We continue to believe that the arson problem is certainly a State and local problem and one in which the Federal Government will not usually be a part of.

We see our role as a leadership role in acting as a catalyst in the development and utilization of the task force approach. We feel that there will be a higher prosecution rate in those cases where the Federal Government gets involved.

Senator ABDNOR. Good. We are happy to hear that.

Senator Mattingly has just one brief statement.

ANTICIPATED OFFICE CLOSINGS

Senator MATTINGLY. I had some contact yesterday from a source, saying there may be some closure of offices in Georgia. It seems to me that this committee should be advised in advance of any closure of any office or contemplated closures so we can have a full discussion.

Mr. WALKER. We would be happy to work with you and members of the committee on that score.

Senator MATTINGLY. We do not want to get you in on the same problem that Customs had.

Senator ABDNOR. Will you keep us abreast of that? If you are going to close, let us know.

Senator MATTINGLY. Not when you are going to close, when you begin to think about it.

Mr. HIGGINS. We get the point.

ADDITIONAL COMMITTEE QUESTIONS

Senator ABDNOR. We have other questions we will put in writing dealing in the area of tobacco and different areas of your agency. We will put those in writing because the hour is going by.

Again we congratulate you and tell you we want to work with you and we are looking forward to that.

[The following questions were not asked at the hearing but were submitted to the Bureau for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

FIREARMS PROGRAM

Question: How many firearms "trace" requests did the Bureau process last year? How many were successful? What is the breakdown regarding the source of the request? State vs. Federal source. What is the average time? Expenditures on traces.

Answer: During calendar year 1982, ATF processed 32,179 firearms trace requests. In 23,255 (72 percent) of the cases, information was obtained through the recordkeeping system of the licensees to the point requested by the originator.

ATF investigations accounted for 12,651 of the trace requests. Another 1,915 were requested by other Federal agencies. 17,613 were originated at the request of State and local law enforcement agencies.

Firearms trace requests fall into these categories--urgent, expedite and routine. Each have their acceptable time frame for completion. If delays are encountered that prohibit the request from being completed on a timely basis, the requestor is notified of this delay.

Question: Could you state the number of ATF firearms prosecutions referred to U.S. attorneys for prosecution; the number of referrals accepted for prosecution; the number of convictions through pleas, jury trials, or nolo contendre pleas for the last four years; and the number of manhours expended upon each referral?

Answer: ATF recommended 4,391 cases for prosecution for Gun Control Act violations in fiscal years 1980 and 1981. Of those 4,391, 3,869 (88 percent) were accepted for prosecution; 1,514 (34 percent) pled guilty or nolo contendre; 416 (9.5 percent) were found guilty after trials; and 1,708 (38 percent) were awaiting final judicial disposition at the end of the period. Over 1.3 million staffhours were expended on these investigations.

Question: Several years ago the Bureau of ATF solicited comments upon a definition of the term "engaged in the business" as used in the 1968 Gun Control Act. Apparently nothing further came of this issue. Is the Bureau still considering defining this term by regulation?

Answer: This issue was originally raised in Congressional hearings and my predecessor testified that the Bureau would look into publishing a definition of the term "engaged in the business." On December 19, 1979, an Advance Notice of Proposed Rulemaking was published in the Federal Register. This notice solicited comments on whether ATF should attempt to define the term and what the definition should be. This issue was discussed with the Bureau and the Treasury Department for over a year and placed on hold several times. In fiscal year 1982, the issue was revived and on December 8, 1982, the Bureau sent a draft definition to Treasury. This draft is based upon the definition of the term in the McClure/Volkmer Bill and is still pending at the Treasury Department.

Question: The acts which constitute violations of the 1968

ALCOHOL AND TOBACCO TAX REVENUE

Question: I understand that both ATF and IRS are involved in the collection of alcohol and tobacco excise taxes. Who actually does what in this process?

Answer: IRS' function is to receive and deposit the monies ATF collects from excise taxes, and issue refund checks. IRS processes alcohol and tobacco tax returns and claim forms, and deposits the taxes into the Treasury account. Their bookkeeping functions include journalization, referral to ATF of tax deficiencies and/or defaults, and the entry of additional penalty assessments. IRS performs no audit, mathematical verification or trend analysis with respect to the taxes administered by ATF. Upon written authorization from ATF, IRS issues checks for refunds of alcohol and tobacco taxes.

REGULATION OF PRIVATE INDUSTRY

Question: Has the number of businesses that ATF is responsible for regulating and providing required services to increased or decreased over the past four or five years?

Answer: The number of businesses we are involved with has continued to grow each year. In 1977, there were approximately 193,000 businesses that had regulatory interaction with ATF; in 1982, that number had grown to over 254,000, an increase of about 31 percent. During that same period, the number of excise tax revenue generating facilities grew about 27 percent, and the number involved with FAA Act activities grew by approximately 18 percent.

Question: During the same period, has your staffing level increased to match the growth in the number of businesses?

Answer: From the period 1977 to the present, Regulatory Enforcement staffing has decreased approximately 36 percent.

FEDERAL ALCOHOL ADMINISTRATION ACT

Question: As I recall, the Federal Alcohol Administration Act requires that you issue permits to businesses that want to make or sell liquor, beer, or wine, and that you conduct some sort of verification or background checks before you issue those permits. Is my recollection correct, and if so, why do you conduct those checks? How about in the firearms and explosives areas, do you conduct any similar checks in those instances, and if so, why?

Answer: Your recollection is correct. This background investigation, which is undertaken to determine if the applicant meets statutory eligibility requirements, serves two purposes. First, in the case of those business enterprises which will pay excise taxes, the background investigation enables us to evaluate and ensure that there are sufficient financial resources available to meet the tax obligations which will ensue. Second, it provides a screening process whereby we can keep "undesirables" such as convicted felons and persons with poor or questionable business reputations out of the business. We have found evidence of organized crime attempting to infiltrate the alcohol beverage industry, Gun Control Act are "malum prohibitum" acts; that is, there is no requirement of criminal intent. Your predecessor stated that it was the Bureau's policy only to pursue intentional criminal violations. Is this still the policy of the Bureau?

Answer: Yes, ATF's policy and long-range goal under the Gun Control Act is to reduce the criminal misuse and illegal diversion of firearms to criminals, and particularly those criminals who commit crimes of violence. Our goal is achieved without placing undue or unnecessary Federal restrictions or burdens on law-abiding citizens with respect to the acquisition, possession, or use of firearms as mandated by Congress in the preamble of the Gun Control Act of 1968.

ATF investigations are directed toward armed and violent criminals who purposely and intentionally use firearms in furtherance of their criminal activities. This is best exemplified by current Bureau orders dictating policy guidelines which must be met prior to initiating any criminal investigation of federally licensed firearms dealers, and unlicensed individuals purchasing or selling firearms at gun shows or flea markets. Specifically, a criminal investigation of the aforementioned individuals will only be initiated when there is reason to believe they are engaged in criminal activity; such as, dealing in stolen or contraband weapons or ammunition, knowingly supplying firearms or ammunition to criminal elements, or engaging in such willful and flagrant violations that it can be reasonably assumed that the firearms or ammunition will be criminally misused.

Question: Could you provide the committee with a breakdown of the number of cases referred for prosecution referenced to the particular violation or violations of current Federal law as well as conviction rates by trial or plea? In particular, I am interested in the data regarding felon-in-possession cases. Is there a feeling or belief among your field agents that U.S. attorneys will refuse prosecution of these cases, particularly where State charges are also involved. Is there an official policy regarding the pursuit of such cases?

Answer: During the period October 1, 1979 through March 31, 1981, ATF recommended prosecution in 2,017 firearms cases involving 3,824 suspects, of which 3,213 were recommended for prosecution. Of those suspects, 67.4 percent had prior criminal records and 45.3 percent were convicted felons. In 21.2 percent of the cases, the defendants were armed at the time of arrest and 79.2 percent of the cases were accepted for prosecution. A survey of 1,642 cases that reach final judicial action, revealed that 1,583 or 96 percent were convicted or pled guilty, while four percent were acquitted.

ATF has an excellent working relationship with prosecuting attorneys in firearms cases, especially those involving felon-in-possession cases. Since many States have limited or no statutes addressing the possession of firearms by convicted felons, ATF is in a unique position to reduce criminal misuse of firearms by convicted felons by enforcing this provision of the Gun Control Act of 1968. Recent Department of Justice guidelines regarding "dual prosecution" require U.S. attorneys to obtain authorization from the Attorney General prior to prosecuting defendants that have been processed through State courts for the same criminal act or acts.

and several applications for permits have either been withdrawn or denied because of questions we have raised concerning the sources of funds for the proposed operations. We believe that information regarding these funds was withheld due to their organized crime origins. In fact, an ATF inspector was recently threatened with a firearm by an applicant while the inspector was performing a background investigation.

In the firearms and explosives area, the large volume of new applicants (approximately 45,000 annually) versus our limited resources does not allow us to maintain the same type of application program that we have in the Federal Alcohol Administration Act program. Our application program in the firearms and explosives areas tries to balance the risk against the cost and availability of resources. The degree of background investigations ranges from a minimum of an office examination of the application and a criminal records check to a field application inspection of firearms applicants such as importers, manufacturers, pawnbrokers, destructive device dealers, and NFA dealers. All applicants for explosives licenses/permits where storage facilities will be maintained, also receive a field application inspection.

The criminal record check made on all applicants is to keep prohibited persons from entering legitimate businesses. The purpose of field inspections are to: educate the applicant in regulatory requirements of the business, and to keep prohibited persons from getting a license/permit. In the case of explosives applicants, where storage facilities will be maintained, a public safety factor is also served by the field inspection. Education of applicants in regulatory requirements serves to restrict criminal access to firearms and explosives, facilitate crime gun tracing and explosives theft reporting and tracing, and ensure safe and secure storage of explosives.

ATF TASK FORCE PARTICIPATION

Question: You have discussed your Crime Impact Program in your statement. Besides that program, does ATF intend to continue to participate in joint law enforcement programs or task forces?

Answer: Yes. We have found that by actively working with other Federal, State and local law enforcement agencies, the task force approach enhances enforcement capability by neutralizing those violent criminals who pose the greatest threat to society. Especially in the area of firearms enforcement, the task force approach has proven an effective tool to combat the major narcotic traffickers who often use gangster-type weapons to protect their operations. We will continue to supply our firearms enforcement expertise to combat violent crime in joint efforts such as the Vice President's South Florida Task Force and the Presidential Drug Task Forces during 1984. A portion of ATF firearms enforcement resources will be directed against outlaw motorcycle organizations, prison and street gangs and other violent-prone criminals who use or traffic in firearms to support and protect their illegal activities.

The Bureau is also participating in the joint security program for the 1984 Summer Olympic Games. As our resources allow, we plan to continue our task force participation with State and local agencies whenever possible.

STATE AND LOCAL TRAINING

Question: ATF has a fine record in the training of State/local police and fire personnel. Are you in a position to continue pursuing such programs in fiscal year 1984?

Answer: ATF has recently developed three advanced training courses for State and local agencies. These courses, each two weeks in duration, are offered at the Federal Law Enforcement Training Center, located in Glynco, Georgia. These courses are the Advanced Explosives Investigative Techniques, Advanced Arson-for-Profit Investigative Techniques, and Undercover Investigative Techniques. We consider these courses as the absolute state-of-the-art in the three program areas, based upon our past years of experience in providing State and local training in addition to the feedback we have received from those who have attended the courses. During the latter part of fiscal year 1982 and the beginning of fiscal year 1983, we have administered six advanced explosives schools to approximately 200 State/local officers, two advanced arson-for-profit schools to 65 State/local officers, and two undercover schools to 48 State/local officers. During the remainder of fiscal year 1983, we have scheduled three additional arson schools for approximately 90 State/local officers and two undercover schools for 48 State/local officers. It is our desire to continue this type of training in fiscal year 1984 inasmuch as there is a critical demand for high quality, specialized training among State and local agencies. To date, we have scheduled only one advanced explosives school for the beginning of fiscal year 1984, with two additional schools currently under consideration.

These courses require no additional cost to ATF since the tuition paid by State/local agencies completely offsets the cost of the training. However, these schools do require significant staffyear expenditure, and our ability to conduct such training in fiscal year 1984 will be dependent upon the level of our commitment to the U.S. Secret Service and the Olympic Games during that period of time. In addition, U.S. Customs and ATF will jointly provide a cargo theft investigative techniques course.

PERSONNEL HIRING POLICIES

Question: The Congress has mandated a rebuilding and revitalization of the Bureau of Alcohol, Tobacco and Firearms. This process was to include hiring personnel to replace the hundreds of experienced inspectors and agents lost over the past two years. I know you are trying and I just wonder if the policies dictated by OPM are making it more difficult for you to get the people you need so badly.

Answer: The recent abolishment of the PACE exam poses a major problem in filling PACE-type positions. Under the replacement system, in order to ultimately consider non-status candidates, we must first consider displaced Federal employees on Displaced Employee (DEP) lists and Intergovernmental Placement Assistance Program (IPAP) lists. It generally takes two to three weeks to obtain such a list, and another two 2 weeks to contact candidates and provide them an ample opportunity to reply (as required by OPM). It has been our experience with these lists that this four to five week period produces few or no viable candidates for our professional positions. After this time lapse, we must then announce the positions via a competitive vacancy announcement in accordance with our negotiated contract agreement. If our internal procedures produce no viable candidates, eventually this new procedure will require an additional announcement issued Government-wide to satisfy OPM's requirements. This announcement would have to be open at least two to three weeks in order to assure the type of distribution required by OPM. After the announcement closes, it would take two to three weeks (depending on the number of applicants and other work-related urgencies) to rate and rank the applicants under this announcement.

The largest single occupation in the Bureau affected by these changes is that of an ATF Inspector, located at posts-of-duty throughout the country. If the processes described above do not satisfy our needs, then we must spend several weeks gathering data and evidence from our regional offices describing our recruitment efforts under the above processes, then prepare a formal package of request for a Schedule B hiring authority from OPM. If such approval is received from OPM, in approximately two weeks, then another vacancy announcement must be issued, and candidates rated and ranked, ultimately resulting in selections.

In summary, adding in no time for our internal vacancy announcements, the process currently in place for filling PACE-type positions could require about 4 1-2 to 5 1-2 months from the time of requesting a Displaced Employee (DEP) list and Intergovernmental Placement Assistance Program (IPAP) list to the development of a list of non-status candidates under the Schedule B hiring authority.

Another problem arises when employees hired under Schedule B become eligible for conversion to the competitive service. This conversion must be through the Mid-level register examination, a system of ranking all candidates in a general occupational pool for each individual vacancy which the Bureau may want to fill. Since this "examination" is open to the public, there is an alarming possibility that employees hired under the Schedule B authority may not fall within reach on a certificate issued by OPM for the position in which the employees are working, hence creating a situation whereby those employees may not be promoted nor attain competitive tenure with the Bureau in the occupation in which they are employed.

For most professional positions not formerly covered by the PACE exam, OPM has required a job-analysis of the position to be filled, with the agency required to submit the analysis to OPM for review and for use in rating applicants. While this approach is normally valid in terms of generating the type of candidates generally suited for the vacancy to be filled, the need for a detailed job analysis on a vacancy-by-vacancy basis is extremely time-consuming and very tedious. In October 1980, OPM went to a new job analysis system, which requires additional forms and evidence of the position to be filled. This new process takes even more time to generate a list of candidates to the Bureau for consideration, frequently requiring one to two months before a certificate of eligibles is issued.

The other major occupation which the Bureau is concerned is that of Criminal Investigator. These positions are competitively filled through the Treasury Enforcement Agent register, maintained at the present time in eight different locations throughout the country. Currently most of these registers are closed. While OPM has recently opened the registers to recruit for new candidates in three of these locations, OPM advises that it will still take several weeks before the Bureau will receive a certificate of eligibles for consideration. Even when such a list is issued, the hiring process may be drawn out for months since there is a history of high declination rates of candidates off of these certificates primarily because many OPM offices do not screen candidates' preferences for specific duty stations. In other locations where the register is held, OPM is willing to open the registers to recruit for candidates. However, the process will take two months or more, in most cases, to announce that the register is open, screen applicants for qualifications, administer and score the written tests, rate and rank candidates, then eventually issue a certificate of eligibles to the Bureau for interviewing and selections. This is the same process used by OPM for this occupation for many years.

JOURNEYMAN LEVEL FOR ATF SPECIAL AGENTS

Question: As I understand it, the journeyman grade for ATF special agents is GS-11. To the best of our knowledge, all other Treasury enforcement agents have a GS-12 journeyman level for agents. Do you feel that ATF agents are properly classified, and, if not, what can we do to rectify the disparity in grades that exists between ATF and the others?

Answer: Traditionally, ATF has recognized a journeyman level of GS-11 for special agents. This level was established in recognition of a large number of alcohol and gun cases of limited scope that involve one offense or one defendant.

In recent years the nature of ATF cases has changed and the Bureau is now concentrating investigative resources on major arson, explosives and firearms cases often involving complex conspiracies or organized crime figures. As the nature of ATF cases has changed, an increasingly large percentage of ATF special agents have been promoted to the GS-12 level. At the present time, approximately 92 percent of ATF special agents hold a grade of GS-12 or above. We are making every effort to ensure appropriate promotion of special agents are consistent with OPM regulations. This conclusion is supported by the trend of OPM appeal decisions which have sustained Bureau classifications in the great majority of cases.

It is also our understanding that special agents at U.S. Customs and Secret Service have a journeyman level of GS-12. The question of grade level comparability among Treasury enforcement agents is a concern to Bureau management. To ensure that Bureau classification practices remain equitable and reflect changing investigative priorities, we will continue to monitor journeyman grade levels for special agents and make appropriate adjustments.

REGULATORY ENFORCEMENT AUDITORS

In 1977, GAO recommended that (GGO-76-91, April 8, 1977) ATF conduct financial audits of alcohol and tobacco excise taxpayers in lieu of on-premise supervision of distilled spirits facilities and inspections of breweries, wineries, and tobacco plants. In response to this recommendation and subsequent to the Distilled Spirits Tax Revision Act of 1979, ATF established and began staffing a financial audit staff. However, due to hiring restraints and attrition, it had only 26 GS-series financial auditors as of September 30, 1982. This is in contrast to the 112 auditor positions ATF initially thought it needed to conduct a comprehensive audit program. Thus, ATF's ability to conduct financial audits appears to be extremely limited.

Question: How many GS series 510 auditors are currently onboard at ATF? How many auditor positions are included in the fiscal years 1983 and 1984 budgets? Does ATF envision more auditor positions for the future? If so, how many auditors would ATF eventually like to have?

Answer: As a point of information, Regulatory Enforcement auditors are now part of the GS-511 series. There are currently 26 Regulatory Enforcement auditors on board. Included in this number are three supervisory positions. The budgets prepared for fiscal years 1983 and 1984 contain 26 auditor positions for each year. At present, we are projecting a need for 38 auditor positions. Six of these positions will be supervisory positions. Of the remaining 32 positions, three will be located in Bureau Headquarters while the other 29 will be located in field offices.

FINANCIAL AUDITS

Each of the following questions involve the concepts of "financial audits" and "inspections" in regard to Bureau revenue protection activities.

Regulatory Enforcement no longer conducts separate financial audits or inspections per se. We did, for a short period of time after the establishment of our regulatory audit group, use these separate approaches to revenue protection. However, we found separate financial audits and separate inspections of taxpayers was a fragmented and undesirable approach to revenue protection due to the unique complexity of production processes in the beverage alcohol industry. In addition to utilizing only certain limited (by legal authority, as well as relevance) financial records, the pure financial audit approach lacks the necessary familiarity with industry operations and the legal standards which apply to them, both of which are essential to an accurate determination of excise tax liability.

We found that the dual approach concept could be unduly disruptive to the taxpayers. Moreover, it resulted in duplication of efforts in some instances. We determined that an integrated approach, using the combined knowledge, skills and abilities of inspectors and auditors together, was the better way to carry out revenue protection responsibilities. Our major revenue protection efforts are now termed tax compliance examinations. These type of examinations are in many instances conducted by teams composed of both inspectors and auditors.

We have, in fact, extended this joint team concept beyond the area of revenue protection into Federal Alcohol Administration Act investigations and arson-for-profit investigations. We will continue to use this integrated approach to any type of work where it is indicated that the unique skills of inspectors and auditors are both needed.

Question: How many financial audits does ATF expect to conduct in fiscal years 1983 and 1984? What does this number of audits represent in terms of the percent of (1) financial audit coverage of the industry and (2) ATF's total revenue protection efforts?

Answer: As explained in the foregoing, ATF no longer conducts "financial audits" per se. However, in fiscal years 1983 and 1984 3,050 tax compliance examinations are projected. The number of tax compliance examinations we project to conduct for any given fiscal year is arrived at through our strategic planning unit goals for our different programs. Tax compliance examinations are part of our Alcohol Revenue planning unit. Planning goals are developed from an analysis of information involving historical compliance data, industry trends, resource projections, economic considerations and other data pertinent to the planning unit. After goals are set, strategies are developed and it is from these strategies that the particular number of projected units to be accomplished are derived. We target our resources where we feel that the programmatic return on the resources committed will be optimized. While percent coverage is not a specific goal, we arrive at a high percent coverage as a byproduct of using such targeting considerations as volume of taxable commodities handled in market-ready containers, past compliance history, etc. The total revenue protection effort utilizes inspector and auditor resources in whatever proportion the circumstances of a particular examination dictate.

Question: What criteria does ATF use to determine when to conduct a financial audit as opposed to an inspection to examine excise tax payments?

Answer: ATF does not conduct "financial audits" per se. ATF tax compliance examinations, regardless of whether conducted by inspectors, auditors, or both, involve the application of audit techniques and skills as well as technical expertise in the operations of the establishment under examination. All personnel involved in examinations are trained (additional training for inspectors is now under way) to utilize the books of account and other appropriate financial records in determining excise tax liability. For some examinations, we employ a joint inspector/auditor team approach. Regional management is responsible for determining when such a joint effort is necessary. For example, if a given examination will involve a very large taxpayer, or is expected to require much in-depth analysis of the books of account, an auditor would likely be assigned.

Question: Given its limited financial audit capability, what role is ATF's financial audit program currently fulfilling in terms of its overall revenue? Does ATF expect this role to change in the future?

Answer: As we have previously stated, we do not have a "financial audit" program as such. ATF's staff of regulatory auditors is an integral part of the Regulatory Enforcement operation. Regulatory auditors supply the knowledge and experience that we find is often needed in dealing with permittee financial matters. We also recognize that this expertise is not only useful and needed in revenue protection activities, but can be useful in other areas of Regulatory Enforcement responsibilities. Our regulatory auditors are now becoming involved in Federal Alcohol Administration Act matters. We also plan to utilize auditor expertise in qualification inspections involving intricate financial transactions. Regulatory auditors have also been supplying financial auditing expertise to ATF Criminal Enforcement for some time in arson cases where a profit motive is suspected. We will continue to use the skills of our auditors whenever and wherever the circumstances warrant.

Question: How many financial audits and auditors positions would be required if ATF were to rely exclusively on financial audits to assure alcohol and tobacco excise tax compliance? If this would occur, how many inspector positions would have to be retained to carry out ATF's consumer protection and other regulatory activities at current levels? Would there be a net change in the total number of inspector and auditor positions?

Answer: Given our position on the concept of "financial audits", the question is no longer material. Our aim is to utilize audit techniques and skills to the optimal extent in all of our activities. This is why we continue to sponsor additional audit training for our inspector force. At the same time, we feel that the technical expertise in industry operations and the investigative skills developed by our inspectors are no less essential. We have determined that the best approach to revenue protection, and in fact to our other programs as well, is the approach that employs the expertise of inspectors and auditors, either alone or in combination, depending upon the circumstances surrounding a given situation. We need both inspector and auditor positions. We feel that staffing levels included in our budget request are sufficient for our current needs.

REVENUE PROTECTION PROGRAM

ATF submitted information for the fiscal year 1983 Senate Appropriations hearing record which indicated that attrition had seriously affected its capability to carry out its fiscal year 1982 revenue protection activities at budgeted levels. For example, ATF expected to complete 1,550 alcohol revenue protection inspections, or 43 percent less than the 2,712 inspections it had budgeted for completion. Similarly, ATF expected to complete 10 financial audits, or 58 percent less than the 24 audits it had budgeted for completion.

Question: How many inspections and audits did ATF actually complete in fiscal year 1982?

Answer: ATF completed 2,547 alcohol revenue protection and 358 tobacco examinations during fiscal year 1982.

Question: What percent of the total excise taxpayers and tax payments were examined in fiscal year 1982?

Answer: ATF does not keep this type of statistic in reference to its revenue protection program. Taxpayers can be examined for various purposes with a revenue basis. The same taxpayers may be included multiple times in the figures given above. The same holds true for tax payments. To go out and examine the returns for fiscal year 1982 of the 15 largest taxpayers would cover 41 percent of all revenues. However, as a revenue protection strategy, it would serve poorly by taking no regard of other factors, for example compliance history, operational peculiarities, internal controls, etc., which must be evaluated to gauge the level of jeopardy to the revenue at an individual establishment.

Question: How does the number of inspections and audits completed and percent of taxpayers/tax payments examined compare with prior years?

Answer: The 2,905 total examinations completed in fiscal year 1982 is down from 3,491 completed in fiscal year 1981. In addition to the effects of the organizational turmoil and attrition, the decline is due in part to program adjustments. For example, in 1981 additional distilled spirits plant assignments were required to complete the certification process for termination of joint custody. By fiscal year 1982, most such assignments had already been completed. As explained above, ATF does not plan or monitor its program based on percent of taxpayers/tax payments examined.

Question: How many inspections and audits does ATF expect to complete in fiscal years 1983 and 1984?

Answer: Current projections call for completion of 3,050 revenue protection examinations in fiscal years 1983 and 1984.

Questions: How many inspections and audits resulted in a tax change in fiscal year 1982?

Answer: Of the 2,905 examinations conducted in fiscal year 1982, 203 resulted in tax changes.

Question: What was the total dollar amount of the tax change?

Answer: The total dollar amount of tax changes was $2,029,207. In addition, 771 claims investigations (a separate category not included in the 2,905 completions enumerated above) resulted in $250,466 in net changes in favor of the Government.

Question: How much additional tax revenues were realized?

Answer: Based on the above figures, the additional tax dollars realized come to $2,279,673. The comparable figure for 1981 was $1,875,443, of which $441,222 was attributable to claims investigations.

Question: How much estimated additional revenue was lost because ATF was unable to complete the budgeted number of inspections and audits?

Answer: The amount of additional revenue, probably small based on historical data, is not the most important issue here.

The principal value of an active revenue protection is in its deterrent effect. Since it is difficult to hide an operating alcohol or tobacco product plant, there is no significant non-filer problem in the industries subject to ATF excise taxes. Determination of the existence of a tax liability is generally clearcut. However, when the sums involved are multi-million dollar semimonthly returns as in many cases, a high profile post-examination presence is good insurance.

Question: How many additional dollars could ATF return to the Treasury for each additional revenue protection position?

Answer: Similarly as for the preceding question, there is really no valid way to predict this. Actual adjustments increasing tax for new positions should be relatively lower on the average, since arguably the highest risk taxpayers have been covered by existing resources. The deterrent value of additional positions would be realized in subsequent years as taxpayers examined more frequently due to the additional staffing improve their compliance.

Question: What are the excise tax compliance levels for alcohol and tobacco excise taxpayers?

Answer: Based on years of experience involving a high level of inspection and audit coverage, it is ATF's judgment that the compliance level among alcohol and tobacco taxpayers is still high but slipping. We are reasonably certain that nearly all revenues due are being collected. However, we have experienced serious revenue problems at several taxpayers involving failure of a declining business to meet all tax liabilities, diversion of goods under cover of export documents, and manipulation of invoicing affecting documentation of taxable removals. These cases, as well as the sizeable adjustments resulting from some of our examinations, indicate that we may expect further deterioration of compliance levels if resources dedicated were further reduced.

Question: How are these compliance levels determined?

Answer: The ATF revenue protection program provides a high level of post-examination coverage at establishments which pay significant amounts of tax. Based on the relative infrequency of serious tax violations, we judge compliance to be a fairly high level. However, as mentioned in the response to the preceding question, recently identified problems may indicate some deterioration of this previously stable situation.

Question: What is the minimum number of inspections and audits that ATF believes is necessary to adequately protect alcohol and tobacco excise (tax revenues)?

Answer: We view the current level of resources as a minimum, and a bare minimum at that. Our standards for evaluation of taxpayers for examination already provide for less that maximum coverage on establishments, for example, which might have a very poor compliance record but fall below an annual payments threshold or fail to meet some other criteria. Some establishments are examined so infrequently that the deterrent value of our program may be watered down or lost. Field investigations and full office reviews of claims are also much less frequent than we feel is desirable.

Question: What coverage would this represent in terms of the number and percent of taxpayers and amount and percent of revenues?

Answer As noted in responses to the previous questions, we neither target nor monitor our examination activity on these characteristics. In general, our coverage in terms of percent of revenues will be quite high due to the concentration of industry volume among the larger producers. Numbers of taxpayers examined will vary as well as with the mix selected. Since there is some positive correlation between size and complexity of the examination task, the more of the larger taxpayers we select, the less we will accomplish in total number.

OCCUPATIONAL TAXES

Several of the Federal occupational taxes may cost the Federal Government more to administer that they generate and also appear to have little regulatory value. For example, the Federal Government imposes a $4.50 per month occupational tax on limited retail dealers of alcoholic beverages.

Question: What studies have been conducted to determine if the costs of administering occupational taxes is justified, given the fact that small amounts of revenue are generated and little regulatory value is gained?

Answer: No studies have been conducted other than by GAO (GGD-75-111, 1/16/76). The reason why there has not been a greater interest in this area becomes clearer once we examine the "givens" stated in the question. For all of the occupational taxes, the Internal Revenue Service processes collections for ATF with little effort on ATF's part. Once a taxpayer is on the system, IRS routinely sets up billing for the next year's renewal basis. The total costs of IRS cashier and collection activities for which ATF reimburses IRS is about $1.3 million. In addition to the occupational taxes, this cost figure includes all excise tax returns processing as well as the high volume firearms and explosives applications processing. Collection on several of the higher volume taxes are given below:

Class of Tax	Annual Rate	Collection FY 1981	Collection FY 1982
Retail of Liquor	$54	17,331,000	17,154,000
Wholesale Liquor Dealer	255	1,328,000	1,411,000
Retail Dealer in Beer	24	1,781,000	1,777,000
Wholesale Dealer in Beer	123	527,000	518,000
TOTAL		$20,967,000	$20,860,000

The tax on the limited retail dealers specifically cited is a very small item in this context and exists for the taxpayers' convenience as much as anything. For example, a fraternal organization that will operate as a retail liquor dealer for several days in connection with some event is not subject to the $54.00 tax. The taxes above serve as a form of "registration" under the tax code of these particular establishments. These establishments typically deal only in taxpaid goods. However, they are subject to recordkeeping requirements under the Internal Revenue Code (IRC). This registry would prove extremely useful to the Government in the event the point of tax collection were moved to the wholesale level, or even if tax rates were increased, thereby creating a potential for floor stocks liability at these establishments. A similar relationship with tobacco distributors would have been very useful in this year's efforts to ensure collection of the floor stocks tax resulting from the cigarette tax increase.

A 1976 GAO study (GGD-75-111, January 16, 1976) of the alcohol occupational taxes found noncompliance of 27 percent. We understand that GAO's recent work in the non-income based tax area, although not yet complete, indicates that noncompliance may have increased since 1975.

Question: What actions has ATF taken to increase compliance of the alcohol occupational excise taxes? What additional actions need to be taken?

Answer: ATF has regular contact with alcoholic products trade associations, State and other local liquor licensing organizations and local media. Through these contacts, ATF has placed articles in trade association journals regarding special occupational tax liability as it applies to particular businesses. Through contacts with various State and local liquor agencies, material regarding Federal occupational taxes is regularly included in packets being sent to applicants for liquor licenses or to those renewing State and local licenses. We also have information placed in local newspapers regarding special occupational taxes by our field office contacts with local media. We feel actions such as these are useful and are a cost-effective method of increasing compliance.

STRIP STAMPS REGULATION

The Internal Revenue Code section 5205(a)(1) et al requires that all containers of distilled spirits be affixed with government issue strip stamps. GAO pointed out in a report "The Federal Government Can Save $1.7 Million Annually by Eliminating Strip Stamps", (GGD-82-60, May 7, 1982) that the stamps no longer have any legitimate government purpose. Thus, GAO recommended that Treasury seek legislation removing the strip stamp requirement. Treasury agreed but has not yet submitted the legislation.

Question: When will the proposed bill repeal 26 USC 5205 and related provisions of the Internal Revenue Code be introduced by Treasury to the Congress?

Answer: A legislative change to abolish strip stamps but require tamper-proof closures was drafted by ATF last year after consultation with the appropriate industry associations, and was approved by Treasury. This initiative continues a policy shift away from stamps that has been under way within ATF and Treasury at least since 1980. In 1980, serial numbers were eliminated from the stamps, saving approximately 50 percent of program costs. Also, domestic bottlers were allowed to begin using other devices in lieu of stamps. In mid 1981, this option was extended to imported spirits bottled abroad. The legislative package is currently pending OMB approval.

Question: In the interim, could the Government-issued strip stamp be eliminated by simply revising Treasury regulations?

Answer: Section 5205 does not allow us that latitude. The history of the enabling legislation of alternative devices indicates an intent to provide for use of such devices in addition to the stamps. Subsequent legislation, the Trade Agreements Act of 1979 which provided for termination of joint custody, contained specific language pertaining to the use of green strip stamps on the bottled-in-bond product. Thus a statutory change is perceived to be necessary.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

STATEMENT OF CHARLES F. RINKEVICH, DIRECTOR

ACCOMPANIED BY:

WILLIAM von RAAB, COMMISSIONER OF CUSTOMS

JOHN R. SIMPSON, DIRECTOR, U.S. SECRET SERVICE

STEPHEN E. HIGGINS, DIRECTOR, BUREAU OP ALCOHOL, TOBACCO AND FIREARMS

JOHN J. WALKER, JR., ASSISTANT SECRETARY, ENFORCEMENT AND OPERATIONS

CORA P. BEEBE, ASSISTANT SECRETARY, ADMINISTRATION

ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS, DEPARTMENT OF THE TREASURY

SUMMARY STATEMENT OF JOHN WALKER

Senator ABDNOR. We welcome you before our committee. I am sure Secretary Walker must be getting a little weary. We have had you here for quite awhile. But this is our last group of witnesses to come before us this morning.

Secretary Walker, I believe you have an opening statement.

Mr. WALKER. Mr. Chairman, I will submit my full statement for the record and I would like at this time just to highlight and summarize from it if I could.

Mr. Chairman and members of this committee, I appreciate this opportunity to appear before you in support of the annual appropriation request of the Federal Law Enforcement Training Center for fiscal year 1984. At the outset, allow me to introduce Charles F. Rinkevich, who recently was appointed the Director of the Federal Law Enforcement Training Center and with him are members of the Center's management staff whom he will later introduce. With your permission, I would like to include for the record biographical information on Mr. Rinkevich.

[The information follows:]

BIOGRAPHY OF CHARLES F. RINKEVICH

Charles F. Rinkevich was appointed Director of the Federal Law Enforcement Training Center (FLETC) effective on February 6, 1983. He came to the FLETC from the U.S. Department of Justice, where he was Regional Director for the Justice Audit Staff in Atlanta, Ga. He is continuing to serve as the coordinator for the South Florida Task Force, which was established by the President to counteract serious crime problems stemming from massive illegal immigration and drug smuggling into the United States through south Florida. Mr. Rinkevich previously was assigned as Director of the Atlanta Federal Task Force, which coordinated Federal assistance to the city of Atlanta during its crisis involving murdered and missing children.

Mr. Rinkevich began his career in 1965 as a police officer in Michigan and subsequently served as lieutenant and police training officer in Savannah, Ga. He went on to serve as a law enforcement consultant with both the University of Georgia and the International Association of Chiefs of Police. In 1969, Mr. Rinkevich accepted the position of executive director with the Pennsylvania Crime Commission. He then joined the U.S. Department of Justice's Law Enforcement Assistance Administration in 1971 as the Regional Administrator in Philadelphia, Pa.

The FLETC Director was born in Grand Rapids, Mich. He received an Associate of Arts from Grand Rapids Junior College and in 1962 earned a bachelor of science degree in police administration at Michigan State University. He is nearing completion of a masters degree in public administration from Georgia State University, Atlanta, Ga. He is a recipient of the U.S. Department of Justice's meritorious award.

Director Rinkevich and his wife Sara have two children, Charles Jr., 11, and Monica, 9.

INTRODUCTION OF ASSOCIATES

Mr. WALKER. Also in attendance with me today are Cora P. Beebe, Assistant Secretary for Administration, and Arthur D. Kallen, the Director of the Department of the Treasury's Office of Budget and Program Analysis.

Mr. Chairman, the Federal Law Enforcement Training Center is one of the most unique and successful experiments at large scale consolidation in the Federal Government today. Established in 1970 under a memorandum of understanding with participating organizations, the Center has emerged in a few short years as the foremost source for Federal law enforcement training activities.

CENTER MISSION

The mission responsibilities of the Center, as designated in the memorandum of understanding, include five principal activities:

To provide the facilities, equipment, and support necessary for conducting basic, advanced, specialized, and refresher training;

To conduct a program of basic training that is common to all Federal law enforcement officers and to conduct advanced, specialized, and refresher training;

To conduct research in law enforcement training methods and curriculum content;

To provide advice and assistance in determining needs for law enforcement training; and

To provide dormitories, food service, and support services and facilities.

With the addition of the Environmental Protection Agency at the beginning of fiscal year 1983, the Center now provides training and support to 50 organizations from all three branches of the Federal Government. In addition to Center-conducted training programs, agencies also conduct their own specialized training at the Center. The training programs range from a few days to 17 weeks in length.

The pending appropriation request for fiscal year 1984 is $14,481,000, an increase of $1,981,000 above the fiscal year 1983 continuing resolution level of $12,500,000. The additional moneys requested are necessary to maintain current operational levels and to meet uncontrollable expenses, particularly with respect to travel.

NEW TRAINING PROGRAMS

Thus far I have spoken to you about the Center's extensive involvement in training Federal law enforcement personnel. I now would like to mention a new initiative being undertaken by the Center which will further affect enforcement activities on a nationwide basis. Current administration policy, as you are aware, defines the role of the Federal Government in relation to State and local law enforcement as one of providing coordination, leadership, and enhancement of the capability of States and localities to combat serious crime. Following upon the recommendations contained in the 1981 Attorney General's Violent Crime Task Force report, the Departments of the Treasury and Justice cooperated on the joint development of a plan to present selective, highly specialized training to State and local enforcement personnel. The training identified would be presently unavailable to State and local organizations without Federal involvement.

This endeavor has become a part of the cornerstone for the administration's anticrime program. In October 1982, the President announced that the Glynco facility would serve as the focal point for the formation of a national program to support State and local training needs. During the initial period, the training will be funded through reversionary moneys available from the former Law Enforcement Assistance Administration and State and local governments. We are very enthusiastic about this initiative and we will keep this committee fully informed.

I will now ask Director Rinkevich to provide further details on the Center's operations.

INTRODUCTORY REMARKS

Senator ABDNOR. Mr. Rinkevich, we welcome you to the committee for the first time. It is a pleasure to have you here in this capacity and to tell you that your entire statement will be made a part of the record. You can summarize and proceed however you care to.

Mr. RINKEVICH. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I am pleased to be here today to report on the operations of the Federal Law Enforcement Training Center and to support our appropriation request for fiscal year 1984. As Assistant Secretary Walker said, I was recently selected to serve as the Director of the Center. I am extremely proud to be associated with such an organization and pledge to you, as I have to others, to enthusiastically lead the efforts to continue the professional development of the Center, its programs, and service to the organizations we serve.

At this time, I would like to introduce the representatives of the Center who have accompanied me. To my right is David W. McKinley, Deputy Director; to his right is William M. Kelso, Assistant Director for Resource Management; to Secretary Walker's left is John C. Dooher, Assistant Director for our Washington office.

NEW TRAINING PROGRAMS

Based on the success of experimental programs, the Center has expanded the export of certain training programs to field locations with geographical concentrations of personnel. We will continue to pursue the development of this extremely cost-effective method of training in those subjects which do not require the resident support services and special facilities available at the Center.

During fiscal year 1982, a memorandum of agreement between the Departments of Treasury and Justice was signed to implement recommendations of the Attorney General's Task Force on Violent Crime regarding an expansion of training opportunities for State and local law enforcement personnel. Funds for the development of these programs came from Law Enforcement Assistance Administration reversionary funds. Eleven programs were prepared and presented to a total of 486 State and local law enforcement personnel as a part of this pilot program.

The Center also signed an agreement with the Office of Juvenile Justice and Delinquency Prevention—OJJDP—during fiscal year 1982 for the purpose of preparing and delivering juvenile justice related training seminars also to State and local personnel. The costs of developing and conducting these seminars is being funded by a juvenile justice grant of $250,000 which was given to the Center.

SALARIES AND EXPENSES

The fiscal year 1984 budget request for the Federal Law Enforcement Training Center is $14,481,000. This represents an increase of $1,981,000 over the fiscal year 1983 continuing resolution level of $12,500,000. This level provides funds necessary to maintain current levels and to provide an additional 1,900 student-weeks of basic training.

The fiscal year 1984 budget request includes funds to train 2,560 students in basic programs, representing 14,300 student-weeks, with an average resident student population of 275. In addition, based on the information currently available from the participating organizations, the Center will also conduct a substantial amount of training on a reimbursable basis.

PLANT OPERATIONS

The Center consists of 1,500 acres and over 200 buildings with 1.4 million square feet of space.

In fiscal year 1979, the House and Senate Appropriations Committees instructed the Center to use $10.2 million of previously appropriated construction funds for ongoing requirements for repairs, alterations, minor construction, and equipment for facilities at Glynco. Through September 30, 1982, the Center had obligated approximately $6.2 million for these purposes. It is projected that approximately $2.6 million will be obligated in fiscal 1983 carrying over to fiscal year 1984. Beginning in fiscal year 1985, it will once again be necessary for the Center to rely on the salaries and expenses appropriation for these requirements. It is our strong conviction that the Government has invested a substantial sum in the creation of the most up-to-date and practical training facilities available today, and it is our aim to be good stewards of this investment and insure that the facilities are maintained properly.

I now would like to comment briefly about the types of training which are conducted at the Center.

BASIC TRAINING

The basic training programs for investigators and officers are conducted by the Center and range in length from 5 to 17 weeks. During fiscal 1982, a total of 1,293 students graduated from all basic programs. The Center's training staff and faculty continue to improve existing programs and to develop new programs to meet changing training requirements and accommodate the training needs of additional participating organizations.

During fiscal year 1982, 272 students were trained in the basic 7-week criminal investigator program. In fiscal year 1983, we will train 1,605 students, and in fiscal year 1984 we project 790 students.

The basic training programs conducted for uniformed police officers graduated 1,021 students during fiscal year 1982, and we project 2,341 students will graduate from the nine different police programs during fiscal 1983. In fiscal year 1984, we will train an estimated 2,449 police recruits.

Several organizations conduct additional agency specific training for their entry-level employees. This training is provided after an employee has completed a basic program, but during the first year of a probationary period. During fiscal year 1982, 1,315 students received this training and 2,472 students will receive follow-on basic training in fiscal year 1983. In fiscal year 1984, we will train an estimated 2,157 students in the follow-on basic training programs.

ADVANCED, IN-SERVICE, REFRESHER, AND SPECIALIZED PROGRAMS

Another major category of training conducted at the Center is advanced, in-service, refresher, and specialized—AIRS—programs. These programs are conducted by both the Center—CAIRS—and the participating organizations—AAIRS. The Center conducts advanced and specialized training for journeyman investigators and police officers in subjects that are common to two or more organizations. During fiscal year 1982, those CAIRS programs accounted for 2,194 graduates. In fiscal year 1983, 2,101 students are estimated, and in fiscal year 1984, projections are for 1,606 students.

The Center offers each participating organization the opportunity to develop and conduct advanced or specialized training to meet the specific needs of its personnel. This training is conducted by the organization's instructional staff, with assistance provided by Center faculty as requested. All administrative and logistical support for this training is provided by the Center. In fiscal year 1982, 6,581 students received AAIRS training; 7,087 will be trained in fiscal year 1983, and 6,727 in 1984.

CLOSING REMARKS

Mr. Chairman and members of the committee, it has been a pleasure to be here today to present the fiscal year 1984 appropriation request for the Federal Law Enforcement Training Center. We recognize that the success we have enjoyed in our effort to provide high quality training at the lowest possible cost has been made possible by your support and the excellent cooperation of the many law enforcement organizations we serve. We look forward to your continued support and guidance as we face the challenges that lie ahead.

I personally look forward to a good working relationship with this committee. My colleagues and I will now be happy to answer questions.

Senator ABDNOR. We too want to tell you how much we appreciate having you onboard. This may be your first time before our committee but you act like a pro. Your testimony was excellent. We want to welcome you to the Treasury law enforcement team.

As you can tell from the earlier comments, this committee does have a close working relationship with the Department and we do take an active role in insuring that the law enforcement agencies do their job.

The Federal Law Enforcement Training Center plays an important part in training these people. This committee is proud of the role it played in the creation of our Training Center and we feel it should be run in the best way possible to provide the training.

I am sure from your background you would agree. If you find anything that jeopardizes the Center's operation, I want you to let us know and I am sure you will.

We are looking forward to working with you in every way.

I am going to call on Senator Mattingly. This is practically your hometown.

Senator MATTINGLY. It is, and we do not have to use a long-distance call if I am at home.

I am pleased to welcome you as Director of the Federal Law Enforcement Training Center. As the chairman indicated, it is located in my home county.

You have a new job and it is a difficult task. I have no doubt you are equal to that task.

It was my hope that you would continue to serve as the coordinator for the South Florida Task Force which was established by the President to counteract the serious crime problems that stem from the massive illegal immigration and drug smuggling into the United States through south Florida. I am glad to see you will stay on to work on that. It continues to be a major problem.

I know Dave McKinley and Mr. Kelso and everybody else from the Center. I just wish I had the time to visit the Center more often. When I get home I drive all over the State of Georgia and I never get to my hometown. I would like to get out there.

Mr. RINKEVICH. I would like to extend an invitation.

Senator ABDNOR. How much time do you need?

Senator MATTINGLY. The problem is if you get down there, you never want to leave.

Mr. RINKEVICH. We could arrange whatever time you have available.

Senator ABDNOR. I am going to do that. I have been wanting to for sometime.

Senator MATTINGLY. What it is doing is so essential. It is an exciting place.

Mr. RINKEVICH. It really is.

Senator ABDNOR. Maybe some other members would like to go too.

Senator MATTINGLY. It is 11 hours and 15 minutes by car, or you can get a plane.

Senator ABDNOR. I think that covers it.

We appreciate your attendance here today and commend Secretary Walker and Secretary Beebe for being so patient. It has been a long morning but I think a very productive one, and we thank you all for being with us, and we just wish we had more time because we could think of a lot more questions.

If we have any questions we will submit them in writing.

Senator MATTINGLY. Let me ask one particular question.

Do you all have any problems down there that we need to know about, that we can help you with?

Mr. RINKEVICH. Not at this time.

Senator ABDNOR. Is the State and local relationship good?

Mr. RINKEVICH. That is a developing relationship and I think it is coming along very well.

Senator ABDNOR. You choose only as many trainees as you have room for, but are you finding more requests that you can take care of?

Mr. RINKEVICH. At this time we do not, but unless we carefully control and watch that, we may very well be in that posture.

Mr. WALKER. As you know, Mr. Chairman, the State and local training program has been designed in a way that would not impinge upon the Federal training effort there. The Federal training effort is, of course, the primary mission of the agency, but where there is unused space or capacity, then there is room for the State and local training.

Senator ABDNOR. That is good because I know you all work together. I know the Secret Service works with local governments and States. I think it is excellent you could work them in.

SUBCOMMITTEE RECESS

Our next meeting will be Wednesday, April 20, at 10 a.m., and then we will bring up the budget from the Executive Office of the President. That should be very interesting.

Mr. WALKER. Thank you, Mr. Chairman.

[Whereupon, at 12:30 p.m., Friday, April 8, the subcommittee was recessed, to reconvene at 10 a.m., Wednesday, April 20.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1984

WEDNESDAY, APRIL 20, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met, at 10 a.m., in room SD–124, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

EXECUTIVE OFFICE OF THE PRESIDENT

COMPENSATION OF THE PRESIDENT

STATEMENT OF JOHN F. W. ROGERS, DEPUTY ASSISTANT TO THE PRESIDENT FOR MANAGEMENT, AND DIRECTOR, OFFICE OF ADMINISTRATION

ACCOMPANIED BY:
URSULA H. PEARSON, DIRECTOR, FINANCIAL MANAGEMENT DIVISION
THOMAS K. LEWIS, JR., DIRECTOR, AUTOMATED SYSTEMS DIVISION
RONNIE R. RASMUSSEN, BUDGET OFFICER

PREPARED STATEMENT

Senator ABDNOR. The subcommittee will come to order. I welcome you all to the hearings. We continue our 1984 budget hearings this morning with testimony on the request for the Executive Office of the President; and we have Mr. Rogers with us, the Deputy Assistant to the President for Management, and the Director of the Office of Administration, who will present testimony on the fiscal year 1984 budget for Compensation of the President, the White House, the Office of Administration, Special Assistance to the President, Council of Economic Advisers, and Office of Policy Development.

Later on we'll hear from Col. Michael O. Wheeler, Donald Sowle, and Joshua Muss.

At this time we already have Mr. Rogers with us. We welcome you back to the committee. You have some of your staff with you; would you care to introduce them? I see you have a summary; I can assure you the entire statement you submitted will be made a part of the record.

[The statement follows:]

STATEMENT OF JOHN F. W. ROGERS

COMPENSATION OF THE PRESIDENT

The fiscal year 1984 budget request for Compensation of the President is $250,000. This includes $200,000 for the direct salary ofthe President as authorized by 3 U.S.C. 102. This amount has remained the same since 1969. In addition, the President receives a $50,000 expense account for official expenses with any unused portions reverting to the Treasury. This expense account is not considered as taxable to the President.

THE WHITE HOUSE OFFICE

The mission of the White House Office is to ensure proper support and assistance to the President of the United States and to do so in the most highly efficient and cost effective manner.

In the 1984 appropriation request currently before you, we are seeking $23,413,000 or a 6.7 percent increase of $1,473,000 over the current proposed level of $21,940,000. These funds will provide for 322 full time permanent positions which is the same as our authorized staffing level for Fiscal Year 1983. The projected increase from Fiscal Years 1983 to 1984 is comprised of 4 major elements which include personnel, office space rental, transportation of persons and other expenses associated with office operations.

Specifically, in the area of personnel costs and related benefits, $503,000 is primarily for an increase in the amount we are required to reimburse the Department of Labor during 1984 under the provisions of the Federal Employees Compensation Act and a portion of the annualized cost for those items included in our Fiscal Year 1983 pay supplemental which is also currently pending before you.

Secondly, $672,000 or 45 percent of our total increase is needed to cover the uncontrollable cost resulting from GSA's increase in rates for space occupied in both the East and West Wings of the White House and the Old Executive Office Building. I should like to point out at this time that this increase does not represent any expansion of space for the White House Offices.

The third factor is transportation of persons wherein we are seeking an increase of $175,000. This category encompasses all travel other than the President himself, and primarily consists of funding for staff which is required to accompany the President. While this increase may appear somewhat large, we have not requested an increase in this category in the last 2 years. Moreover, we have made a concerted effort to closely monitor and control these expenditures during this period. In spite of our efforts, we have found that we are unable to continue to effectively perform at this level without jeopardizing the success of Presidential programs and initiatives which are paramount to the national interest. This was further evidenced by our need to allocate funds from the President's Unanticipated Needs Account to support the Federalism and Private Sector Initiatives program during parts of Fiscal Years 1982 and 1983. Since further flexibility does not exist within current funding levels to absorb the costs resulting from the revised GSA's per diem rates, other inflationary costs, expansion of the Administration's programs, and in keeping with the intent of the appropriations process we are compelled to seek additional funding at this time.

Finally, the remaining $124,000 is required for inflationary cost increases associated with normal operations of the White House Offices which includes printing, office supplies and various contractual services.

Concurrent with our Fiscal Year 1984 request, we are also requesting funding in the amount of $640,000 for the Fiscal Year 1983 pay supplemental. These monies are required for the October 1982 4 percent general schedule pay raise, the January 1983 Executive Pay Cap Lift and the Government's share of contributions for the Medicare Tax and the two Health Insurance increases. For this request we were able to identify $203,000 in savings which represents a 24 percent absorption of the total estimated cost.

In closing, the budget requests before you were designed to provide for the continuance of essential support and assistance to the President and are vital in the conduct of his diverse duties and responsibilities as President of the United States.

I am grateful to this Committee for their recognition, understanding, and support of these paramount activities during this past year.

OFFICE OF ADMINISTRATION

As you are aware, the Office of Administration provides common administrative support and services to all the organizations within the Executive Office of the President (EOP) of which there are currently eleven.

During the past year, we have continued our planned efforts to further consolidate the various administrative responsibilities into this office and organize it in such a fashion that it provides prompt, effective service while achieving economies through an integrated and centralized support unit. The flexibility and economies of this approach were further evidenced during the past year wherein three additional permanent boards were established within the EOP to which we are now providing administrative support and services.

Furthermore, special emphasis continues to be given to our ADP program which is being faced with a dramatic increase in the number of customers and an unprecedented demand for services. We are currently in the process of implementing our computer facility upgrade to accommodate this projected increase in workload for which we sought funding last year. Additionally, with the establishment of our Long Range Planning Program, we are now in a better posture to plan for future ADP needs and their associated budgetary requirements.

With regards to the 1984 Appropriation Request for the Office of Administration currently before you, we are seeking $14,900,000 or an increase of $1,792,000 over the current proposed level of $13,108,000. Additionally, we are projecting estimated reimbursements for the various users within the Executive Office of the President (EOP) for ADP Systems Development in the amount of $1,498,000. In part, these combined funds will provide for 155 full time permanent positions of which 16 are reimbursable. This represents an increase of 8 positions over the current authorized staffing level.

Authorization for these 8 positions without additional funding is being sought to enable us to staff a vital component of our ADP facility with permanent government employees. This specific task is located in our central computer facility which operates the White House and the Executive Office of the President Computer Center and is currently performed by contract personnel. Based upon a recent review of our operations, we have determined that a stable, experienced workforce is essential to this critical point of operations to ensure continuity, control, and coordination of the system programming application for the Computer Center. Experience has shown that we are unable to achieve this through past contractual arrangements. While this proposal would yield an approximate savings of $100,000, even greater economies and increased productivity would be realized as a result of reduced down time for the system and ultimately the users.

Also included in our request is funding for two extremely important projects related to our computer facility which were identified in our Long Range Planning efforts. The first being the need for a secure CPU which is capable of handling classified data. Considering the responsibilities of our clients, it is in the national interest that every precaution be taken to protect these agencies' highly sensitive information. The second would enable us to have a Risk Analysis and Disaster Recovery Plan developed for the Center. We currently do not have such a backup or recovery plan in the event of a major disaster.

Concurrent with our 1984 request, we are also seeking funding in the amount of $204,000 for our FY 1983 pay supplemental. These monies are required for the October 1982 4 percent General Schedule Pay raise, the January 1983, Executive Pay Cap Lift, and the government's share of contribution for the Medicare Tax and two health insurance increases. We have identified $63,000 in savings to which we can absorb a portion of these costs. This savings represents 24 percent of the total necessary funding.

Mr. Chairman, before closing, I would like to bring to your and the Committee's attention an accomplishment in which I take great personal pride. In sharing this Committee's concern over agencies' internal controls and accountability of government funds, I would like to inform you that we have received formal approval from the General Accounting Office on the Executive Office of the President Accounting System which services all of the components of the Executive Office of the President including the White House. I believe that this is a new milestone which will greatly enhance our ability to effectively control and account for appropriated funds.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions you or any other Members of the Committee may have.

Special Assistance to the President

These funds enable the Vice President to provide assistance to the President which encompasses directed and special Presidentially assigned functions. Additionally, the Vice President through Cabinet membership and White House contact is informed on a continuing basis regarding Presidential responsibilities and in the President's absence serves as Chairman of the Cabinet.

Furthermore, his current Presidential assignments include:

- Statutory Member of the National Security Council;
- Chairman of the Special Situation Group;
- Chairman of the National Narcotics Border Interdiction System;
- Chairman of the Presidential Task Force on South Florida;
- Chairman of the Presidential Task Force on Regulation Reform;
- Ex Officio member of all Cabinet Councils; and
- Member of the Board of Regents of the Smithsonian Institutions.

The Vice President also serves as an advisor to the President on matters of national importance, and assists in ceremonial functions and in the conduct of international affairs.

The 1984 Appropriation request is $1,593,000 or an increase of $87,000 over the current proposed level of $1,506,000. In part, these funds will provide for a staff of 22 full time permanent positions which is a reduction of 1 from the current authorized level of 23.

Included in this increase is $30,000 for travel and associated costs. Since the advent of the South Florida Task Force, funding has been allocated from the President's Unanticipated Needs account to support this important initiative. Since funds do not exist in our regular budget to accommodate these additional costs and keeping with the intent of the appropriation process, we are seeking additional funding for this and other Presidentially assigned projects.

Concurrent with the 1984 request, we are also seeking funding in the amount of $31,000 for the FY 1983 pay supplemental. These funds are required for the two pay increases and the Government's share of contribution for Medicare Tax and the two health insurance increases. For this account we were able to achieve a $15,000 savings which we can absorb as a portion of these costs.

In closing, these requests reflect the Vice President's commitment to uphold the President's efforts and are necessary for him to continue to fulfill these important responsibilities.

COUNCIL OF ECONOMIC ADVISERS

I am testifying on behalf of the Council of Economic Advisers which respectfully requests an appropriation of $2,464,000 for fiscal year 1984. This request represents an increase of $287,000 over the current proposed level of $2,177,000. In part, these funds will provide for 34 full-time positions and 4 others which is the same number as in fiscal year 1983. Concurrent with their 1984 request, they are also seeking funding in the amount of $77,000 for the fiscal year 1983 pay supplemental.

The $287,000 increase requested for fiscal year 1984 is composed of $151,000 for personnel compensation to cover pay increases required for the October 1982 4 percent General Schedule pay raise, the Executive Pay Cap lift, the government's share of contributions for the medicare tax, and health benefit cost increases, along with regular within grade raises and staff promotions.

The Council is also requesting a $112,000 increase in Other Services which is required for the expanded use and per unit cost of time-sharing services. The remaining $24,000 is needed to partially offset the cost increases in normal operating expenses.

Although they are requesting a 13 percent increase from fiscal year 1983 to 1984, this should not lead to the false impression that the Council is in any way an expanding institution. The Council's appropriation declined from 1981 to 1983. Additionally, the Council has experienced an approximate 25 percent reduction in staffing since 1976. The fiscal year 1984 budget was framed with the objective of keeping a very small staff of capable and well qualified professionals. Their budget request reflects the need for a very modest number of economists within the Executive Office of the President with a small but adequate level of resources for analytic support. The budget request before you is designed to provide for adequate funds to support the Council's statutory responsibilities while at the same time reflecting their commitment to perform this mission in the most efficient and cost-effective manner.

OFFICE OF POLICY DEVELOPMENT

I appreciate the opportunity to meet with you and to present the budget request for the Office of Policy Development in the Executive Office of the President. The Office of Policy Development is responsible for providing advice and assistance on economic and domestic policy matters to the President of the United States. The budget requested for Fiscal Year 1984 is for the salaries and expenses necessary to operate this office.

The Office of Policy Development has policy responsibility for a broad range of subjects, including health and human resources, energy, agriculture, natural resources, commerce and trade, legal policy, management policy, economic affairs, drug abuse, and other domestic matters. They work closely with the National Security Council in areas where domestic policy includes international considerations and vice versa. They also disseminate information on policy matters to senior Administration officials and report directly to Mr. Edwin L. Harper, the Assistant to the President for Policy Development.

The Office of Policy Development is organized primarily around the President's Cabinet Council structure. Members of the staff serve as the Executive Secretary for each of the Cabinet Councils and the primary support for the Councils is provided by this office. The Office of Policy Development also provides support for several other functions within the Executive Office of the President, including Planning and Evaluation, Cabinet Affairs, Drug Abuse Policy and the President's Economic Policy Advisory Board.

The Economic Policy Advisory Board is established by Executive Order No. 12296 and generally meets each quarter. There are 14 members on the board and we pay the necessary travel expenses for these members to attend the Board's meetings.

Fiscal Year 1984 Budget Request

This office's budget request for Fiscal Year 1984 is $2,861,000. The budget estimate for the current Fiscal Year of 1983 is $2,712,000 which represents the authorized amount of $2,600,000 and a supplemental request for $112,000 to provide for part of the estimated cost of the 4 percent cost-of-living increase effective last October and other pay increases resulting from legislative action.

The increase between the budget estimate for Fiscal Year 1983 and the budget request for Fiscal Year 1984 is $149,000 or 5.5 percent. Three items account for most of the increase. The largest increase is the $61,000 for updating their word processing equipment in 1984. The second item is the annualized cost of payroll increases ($53,000) as a result of adding Medicare contributions and the change in salaries authorized for Executive Level employees. The third item is the cost ($10,000) of printing the 1984 Federal Strategy for Prevention of Drug Abuse and Drug Trafficking, which is published every two years. The remainder of the increase is the cumulative effect of smaller increases in space rental, phone service and machine rental, equipment maintenance and supply costs.

Direct personnel costs are 76 percent of their budget, or $2,172,000. Charges by the General Services Administration for their office space in the Old Executive Office Building are $297,000 or 10 percent of the budget. Travel accounts for less than 2 percent of the request ($60,000). The remaining 12 percent, or $332,000, is for routine office support such as telephone service, maintenance, supplies, and equipment.

Fiscal Year 1983 Supplemental

They are also requesting a supplemental appropriation for Fiscal Year 1983 of $112,000 for the Office of Policy Development. This is to provide for part of the 4 percent cost-of-living increase which was effective in October 1982, for the agency's share of the Medicare coverage which began in January 1983, and for the change in Executive Level pay which was effective December 18, 1982. The computed full cost of these increases for Fiscal Year 1983 totalled $141,000. The requested supplemental of $112,000 reflects their action to absorb $29,000 or 21 percent of the increase.

In summary, the Office of Policy Development has an important role to perform in assisting the President. I belive that their budget request reflects an efficient approach to fulfilling this role.

I will be glad to answer any questions you may have.

Biography of John F. W. Rogers

Mr. Rogers was raised in Seneca Falls, New York and received his Bachelor of Arts degree in Public Affairs from the George Washington University in 1978. While attending the University, Mr. Rogers worked full time in the Ford White House as an assistant to the Director of Communications. He worked on the staff of the Senate Republican Policy Committee from January until November 1977 when he left to help launch a new periodical, Public Opinion, at the American Enterprise Institute for Public Policy Research (AEI). He worked on the editorial staff of the magazine until he moved into the administrative ranks of the Institute. In September 1979, he was appointed Assistant to the President for Administration and continued in that capacity until he left AEI in November 1980.

During the Presidential transition, Mr. Rogers was Executive Assistant to the Director of the White House transition team. He was responsible for reviewing the administrative operations of the White House.

Mr. Rogers joined the Reagan White House staff on Janaury 20, 1981. The President appointed Mr. Rogers Special Assistant to the President for Administration and Director of the Office of Administration.

On February 1, 1982, the President appointed Mr. Rogers as Deputy Assistant to the President for Management with greater management responsibility within the White House and Executive Office of the President.

Mr. Rogers represents the President on the Board of Trustees of the U.S. Capitol Historical Society.

BIOGRAPHY OF URSULA H. PEARSON

Ursula H. Pearson is the Director for Financial Management for the Executive Office of the President, Office of Administration. She has served in this position since April 1979. She is responsible for Budget, Accounting, Travel, Payroll, and Imprest Fund for the 11 appropriations of the Executive Office of the President, including the White House.

Mrs. Pearson started her government accounting career in January 1968 with the Department of the Interior, National Park Service. In 1971, she transferred to the Office of Naval Research as an operating accountant. In 1975 she was assigned to the Navy Materiel Support Activity as a Systems Accountant in charge of financial systems development for major Navy accounting systems.

Mrs. Pearson was born on August 31, 1924 in Breslau, Germany. She received her degree in Languages in 1947 from the University of Berlin with a major in English. From 1948 to 1951 she owned a translating and interpreting office in Berlin. In 1951 she came to the U.S. where she was the proprietor of a restaurant in Long Island, New York. She served with the Air Force in a civilian capacity in Wiesbaden, Germany from 1960 to 1966. She attended SW State College in Oklahoma and continued her accounting studies at the University of Virginia. She is a member of the Association of Government Accountants and member of the Military Comptrollers Association. Mrs. Pearson and her husband, John, live in Alexandria, Virginia.

BIOGRAPHY OF THOMAS K. LEWIS

Thomas K. Lewis, Jr., is the Director of the Automated Systems Division for the Executive Office of the President, Office of Administration. He has served in this capacity since September 1982.

Mr. Lewis was raised in Pennsylvania and received his Bachelor's Degree, Magna Cum Laude, in Business Administration from the University of New Haven in Connecticut. He received his Master's Degree in Computer and Information Science from the same school. Mr. Lewis also attended law school at the University of LaVerne in California. He is the recipient of several academic scholarships and awards.

Mr. Lewis worked for the Burroughs Corporation from 1976 until 1980 in the areas of computer systems development and administration. He joined Marriott Corporation in 1980 as the Director of Management Information Systems for Marriott Hotels and was employed by Marriott until his appointment in the Executive Office of the President.

Mr. Lewis has lectured at several universities, including California State University, California State Polytechnic University, The University of New Haven, Cornell University, the University of Massachusetts. He was also the founder and served as President of a Virginia-based computer software development company.

BIOGRAPHY OF RONNIE R. RASMUSSEN

Ronnie R. Rasmussen is the budget officer for the Office of Administration, Executive Office of the President and has served in this capacity since August 1981.

Prior to his appointment to this position, Mr. Rasmussen was Deputy Chief of the Financial Management Division with the U.S. Secret Service, an organization in which he has served in varying financial related positions since 1973. Mr. Rasmussen specifically assisted in the automation of their financial accounting system, served as the Staff Assistant to the Assistant Director for Administration and in addition, acted as the Administrative Coordinator for the 1980 Presidential Campaign.

Mr. Rasmussen was born January 19, 1946, and raised in Akron, Ohio. While serving in the U.S. Navy, he was assigned to the White House Communications Agency from 1965 to 1969. He then worked for the National Security Council while attending the American University, where he obtained his Bachelor of Science degree in Accounting in 1973.

Mr. Rasmussen has been a member of the Association of Government Accountants since 1973, and is a recipient of the Presidential Service Badge and Certificate.

INTRODUCTION OF ASSOCIATES

Mr. ROGERS. Thank you, Mr. Chairman.

I would like to introduce the witnesses accompanying me. On my left is Mr. Thomas Lewis, who is the Director of the Automated Systems Division for the Office of Administration, Executive Office of the President; and on my right is Ursula Pearson, Director of Financial Management; and to her right is Mr. Ron Rasmussen, who's our Budget Officer.

Senator ABDNOR. We're glad to have you here this morning.

Mr. ROGERS. Mr. Chairman, I'm pleased to be here today to present to you and the other committee members the proposed fiscal year 1984 appropriation requests for the compensation of the President, the White House Office, Office of Administration, Special Assistance to the President, Council of Economic Advisers and the Office of Policy Development.

I'll read my summarized statement and then submit for the record the complete text of each individual one.

Senator ABDNOR. That will be fine. Very good.

Mr. ROGERS. Thank you, sir.

First I would like to say that there are two common increases throughout all of the accounts, with the exception of "Presidential compensation."

The first of these two increases includes funds for the annualization of the various factors comprising the fiscal year 1983 pay supplemental, which is also currently pending before this committee.

The second is for funds which are needed to cover the uncontrollable costs resulting from the GSA's increase in our rates for office space.

Specifically, as it pertains to the Executive Office of the President, and the White House complex, the major increase occurs in the East and West Wings of the White House and the New Executive Office Building, while there is a minor increase in the Old Executive Office Building.

I will now present the summary of each account:

COMPENSATION OF THE PRESIDENT

The fiscal year 1984 budget request, compensation of the President, is $250,000. This includes $200,000 for the direct salary of the President as authorized by 3 United States Code 102. In addition, the President receives a $50,000 expense account for official expenses with any unused portions reverting to the Treasury. This expense account is not considered taxable to the President.

THE WHITE HOUSE OFFICE

The mission of the White House Office is to insure proper support and assistance to the President and to do so in the most highly efficient and cost effective manner. The fiscal year 1984 White House request is $23,413,000, which is an increase of $1,473,000 over the current proposed level of $21,940,000.

This funding level allows for 322 full-time permanent positions, which is the same as this year. This staff provides a wide range of support and assistance to the President which are vital to enabling him to execute his many important duties and responsibilities. The White House also requests funding in the amount of $640,000 for the fiscal year 1983 pay supplemental.

Included in this request are moneys needed to reimburse the Department of Labor in 1984 as mandated under the provisions of the Federal Employees Compensation Act. Also, additional funds are sought for Presidential-related travel which would offset the costs resulting from the revised per diem rates, inflationary cost increases, and the expansion of the administration's programs.

While we have made every concerted effort to closely monitor and control these expenses, we have found that we are unable to continue to effectively perform at this level. Moreover, during parts of fiscal years 1982 and 1983, funds had been allocated from the "President's unanticipated needs" account to support the federalism and private sector initiatives program. Correspondingly, in keeping with the intent of the appropriation process, we are compelled to seek additional funding at this time in our direct appropriation.

OFFICE OF ADMINISTRATION

The mission of the Office of Administration is to provide common administrative support and services to all 11 agencies within the Executive Office of the President, including the White House. The pending 1984 appropriation request is for $14,900,000 which constitutes an increase of $1,792,000 over the proposed 1983 level of $13,108,000.

In addition, we are projecting estimated reimbursements from the various Executive Office of the President users for automated data processing systems development in the amount of $1,223,000.

In part, these combined funds will provide for the 155 permanent positions, of which 16 are reimbursable, for an increase of 8 positions over the current year. Authorization for these eight positions, without additional funding, is being sought to enable us to staff a vital component of the Executive Office of the President Computer Center with permanent government employees. These duties are currently included as part of our facility contract for ADP operations.

Concurrent with our fiscal year 1984 request, the Office of Administration requests a $204,000 pay supplemental for fiscal year 1983.

This request also includes moneys for two critically needed projects. The first would allow the Office of Administration to obtain a secure computer processing unit that has the capacity of processing classified data for the Executive Office of the President Computer Center. The second would provide for a comprehensive ADP disaster recovery plan to determine the precautionary initiatives necessary in the event of a failure or catastrophe.

SPECIAL ASSISTANCE TO THE PRESIDENT

The 1984 budget request is $1,593,000 for necessary expenses to enable the Vice President to provide assistance to the President. This assistance takes the form of directed and special Presidentially assigned functions. Additionally, the Vice President, through Cabinet membership and White House contact, is informed on a continuing basis regarding Presidential responsibilities and in the President's absence serves as Chairman of the Cabinet.

This year's request is $87,000 over the fiscal year 1983 current proposed level of $1,506,000. This funding will partly provide for 22 full-time permanent positions which represents a reduction of 1 from the level authorized for fiscal year 1983. This office also seeks a pay supplemental in the amount of $31,000 for various fiscal year 1983 cost increases.

Additional resources are required for travel and related costs. Since the advent of the south Florida task force, funding has been allocated from the "President's unanticipated needs" account to support this important initiative. In keeping with the intent of the appropriations process we are seeking funding for this and other Presidentially assigned projects for which the Vice President has responsibility. Additionally, this increase will offset the impact of inflationary increases in the area of hotel rates.

COUNCIL OF ECONOMIC ADVISERS

The Council of Economic Advisers requests an appropriation of $2,464,000 for fiscal year 1984. This request represents an increase of $287,000 over the current proposed level of $2,177,000 and will in part provide for 34 full-time permanent positions. Concurrent with the 1984 request, the Council is seeking funding in the amount of $77,000 for the fiscal year 1983 pay supplemental.

The requested budget authority would enable the Council to carry out its responsibility for analyzing the national economy, advising the President on economic developments, recommending policies for economic growth and stability, appraising economic programs and policies of the Federal Government, and assisting in the annual Economic Report of the President to Congress.

A major portion of the fiscal year 1984 request is needed for the expanded utilization and per-unit-cost of time-sharing services. These highly specialized and complex data bases are essential for assessing the economic data needed to conduct critical analyses.

OFFICE OF POLICY DEVELOPMENT

The role of the Office of Policy Development is to advise and assist the President in the formulation, evaluation and coordination of economic and domestic policy; the policy development office coordinates and supports the activities of the Cabinet Councils and the President's Economic Policy Advisory Board.

The fiscal 1984 appropriation request of $2,861,000 is an increase of $149,000 above the fiscal year 1983 currently proposed level of $2,712,000. The personnel authorization requested for fiscal year 1984 remains unchanged from the current level of 45 full-time permanent employees. A fiscal year 1983 supplemental appropriation of $112,000 is requested to provide for the increased payroll costs.

These additional funds would provide for the purchase of word processing equipment to increase productivity and to replace selected obsolete units. The requested resources would also allow for the increases associated with printing the 1984 Federal Strategy for Prevention of Drug Abuse and Drug Trafficking.

To conclude my statement, Mr. Chairman, I would like to emphasize that these budget requests reflect the minimum resources essential to finance the unique mission of every agency. Each has made a genuine effort to curtail costs while striving to ameliorate the efficiency and effectiveness of their operation. As such, they are in keeping with the President's goal to reduce Government expenditures, but at the same time provide the necessary support so vital to him as Chief Executive.

On behalf of the White House and the agencies which I represent today, I wish to express my gratitude to this committee for their recognition, understanding, and support of these diverse and paramount activities during this past year.

And this completes my consolidated statement, Mr. Chairman.

Senator ABDNOR. Well, thank you, Mr. Rogers, for your very concise and fine statement.

We know from the figures themselves that this is a frugal budget. I'm amazed that you hold as well as you do. There's no doubt that we have to be careful. I know the media watches every step you folks make down there, and notice if you're spending a dollar too much.

But I do want to compliment you and your staff for a job well done.

Mr. ROGERS. I thank you, Mr. Chairman.

STANDARD LEVEL USER CHARGE (SLUC)

Senator ABDNOR. One of your big increases is in this SLUC, isn't it?

Mr. ROGERS. That's correct, sir.

Senator ABDNOR. Doesn't that make up 45 percent of the increase for fiscal year 1984? It's the increase per square foot in your New Executive Office Building, which has been raised from $13.28 to $29.79; and what explanation did the GSA give you for this huge increase?

Mr. ROGERS. Well, Mr. Chairman, there are three rate increases that take place; probably the single largest is in the New Executive Office Building. There's a minor one in the Old Executive Office Building. But also the East and West Wings of the White House, they are increasing about the same percentage, approximately $14 to $33 per square foot.

This is part of GSA's appraisal of office space in the area which has been operating up to this point on a 3-year basis, and now which, apparently, is switching to a 1-year appraisal cycle.

Their belief is that commercial office space in that area would rent or cost approximately the same amount of money; therefore, they make that assessment of the Government buildings based on private sector-commercial rates.

Senator ABDNOR. Well, I guess we're saying it was all wrong before if it has to go up this much to this figure today.

Of course, we have GSA as part of this subcommittee, so maybe we'll learn more about all of the details of that.

Mr. ROGERS. Well, you begin to ask yourself: does the First National Bank of Washington determine the rate for the rental, because they're next to the White House, or is it because we're next to them?

Senator ABDNOR. That's right. You make a good point. And I'm sure it's a subject matter I'm going to be ready to explore; because it cuts across all of the agencies that I deal with; and it's going to matter.

TRAVEL EXPENSES

Do you think the money you have or that we have in this budget request is going to be sufficient to cover the travel expenses involved?

Mr. ROGERS. I think so, in terms of the increases in the White House Office and the Special Assistance to the President; I think they're going to be completely adequate to cover the needs.

And I think what's reflected in both of those requests is fully an assessment of what our needs are, and fully budgeting for those in keeping with the appropriation process.

We had to resort to the "Unanticipated needs" account because during the course of the fiscal year those expenses were not anticipated; and we have fully incorporated them now into our request.

Senator ABDNOR. Is it for the President?

Mr. ROGERS. Yes; for the President, and also for the Vice President.

Senator ABDNOR. Yes, we had a story one time that the funds weren't there for him to travel on a very important mission; and that was bothering me to think that we were that close.

But in this case you went to a different account to find the money?

Mr. ROGERS. It was in the course of the fiscal year and we had to turn to the "Unanticipated needs" account to provide funding for the south Florida task force; and also for the White House programs, federalism and private sector initiatives program.

Senator ABDNOR. Well, I am most conservative; I don't know why I should be encouraging you to ask for more money here. [Laughter.]

I just want to make sure that I don't think that's the place to keep the costs down too much, in the travel of the President and the Vice President; but I am sure you know more about it than I do.

SECURITY OF THE ADP SYSTEM

How long is it going to take to get the ADP system operating?

Mr. ROGERS. The securing of it?

Senator ABDNOR. The securing of it.

Mr. ROGERS. I think it's going to take somewhere between 6 to 8 months. I've asked Mr. Lewis to come here today because I thought he could give the committee some more information; and at least talk to the point of securing the CPU's. So why don't we turn to Mr. Lewis, with your permission.

Senator ABDNOR. Yes?

Mr. LEWIS. Mr. Chairman, it will take us about 6 to 8 months to do; there's a great deal of physical work that needs to be done.

As the committee is aware, we have already begun some of the efforts in securing the facility, the access doors to the facility; and this would involve securing the data access to the facility; and the communications lines to our computers; and bringing it up to what is known as a tempest standard.

So we would have to lay secure conduit between our computer facility and all the offices that use our computers.

Senator ABDNOR. Between 6 and 8 months?

Mr. LEWIS. Yes, sir.

DISASTER RECOVERY PLAN

Senator ABDNOR. That will take care of—how about the disaster recovery response; that's part of the whole thing?

Mr. LEWIS. That is separate from securing the CPU. But I estimate that that probably will take about 6 months to do.

Now, what that is, is the first stage, which is an analysis of what is really going to be needed to prevent those sort of disasters from occurring, one; and, two, what we do in the event that they succeed.

Right now we don't have an operational plan in the event of some sort of disaster or major system failure.

Senator ABDNOR. It sounds to me that's a very important program.

How does it happen we've been so long in getting around to it?

Mr. ROGERS. Well, I suppose that in terms of our predecessors, there was a low priority. Last fiscal year we came requesting the major funding for our upgrade; that was both the upgrade of the facility, but also, part of that was funding, as you will recall, for the long-range planning process.

Now, out of that planning process, one of the highest priorities that came about was, we had to do something about having some emergency plan in event of system failure.

And I think that's what really has now made this a very important task from a management perspective.

What we've tried to do is tackle one problem at a time; and this is the next stage.

Senator Abdnor. Well, good luck. At least you're on the right track.

This budget request gives you the funds necessary to do everything you can do in the next 6 or 8 months to bring this about; right?

Mr. Rogers. Yes, it gives us the ability to do the analysis work and determine what we're going to eventually need, absolutely.

UNANTICIPATED NEEDS

Senator Abdnor. Well, you mentioned a moment ago the "Unanticipated needs" account; and I guess that becomes a very important account to you in situations like those last year with the travel funds for the President and the Vice President? And I am sure you utilized it very prudently. And I compliment you for that.

But are these one-time-occurring things, or is this something that's going to happen maybe every year? It's not such that you'd want to build it into the budget as part of travel or whatever it might be; you don't anticipate that coming up again? Is that correct?

Mr. Rogers. That's correct, sir.

I think it's a very important account that's available to the President on an annual basis, and it provides him with the ability to handle problems whether they are national security or things that are otherwise in the national interest.

Now, what we've done is fully budget within our appropriations; but in the event that something is unanticipated, some crisis that arises and so on, and the President is forced to turn to that account, that's certainly the purpose, and why the Congress has provided that to him.

Senator Abdnor. Has the "Unanticipated needs" account been a part of the budget ever since you've been over there?

Mr. Rogers. Absolutely. It's an annual appropriation of $1 million to the President.

Senator Abdnor. Well, Mr. Rogers, I don't have any other questions to ask you. If we do come up with some questions, then we'll certainly submit them to you in writing.

Otherwise, we thank you for coming here this morning and giving your fine testimony.

Mr. Rogers. Thank you very much, Mr. Chairman.

PREPARED STATEMENT

Senator Abdnor. I have received a statement from Capt. James E. Hancock, which I will include in the record at this point.

[The statement follows:]

STATEMENT OF CAPT. JAMES E. HANCOCK, U.S. NAVY, ASSISTANT DIRECTOR OF BUDGET AND REPORTS

Mr. Chairman and members of the committee, I welcome the opportunity to appear before this committee to present the Department of the Navy's fiscal year 1984 budget request for the appropriation, Official Residence of the Vice President.

The fiscal year 1984 request is for $262,000. This is $13,000 less than the $275,000 reflected in the budget for fiscal year 1983. (The fiscal year 1983 amounts shown are based upon a continuing resolution (Public Law 97-377)). This decrease is due primarily to a decrease in the number and value of major projects (replaster/repair interior walls/upgrade association wiring IAW electrical code), offset by additional funds to cover inflation associated with utilities and other services, plus a small program increase for rehabilitation and improvements.

The funding requirements by function are furnished in table 1:

TABLE 1.—FUNCTIONAL AREAS

	Fiscal year—		
	1982 actual	1983 estimate	1983 estimate
Utilities	$26,300	$27,600	$29,000
Other services:			
Maintenance of residence	25,600	26,900	28,200
Rehabilitation and alterations	1,900	8,900	11,000
Supplies	6,000	6,300	6,600
Furnishings	5,900	6,200	6,500
Vehicle lease	2,200	2,300	2,400
General administration	5,600	5,800	6,000
Services	4,300	4,500	4,700
Equipment maintenance	2,400	2,500	2,600
Official entertainment	48,800	60,000	60,000
Veranda roof	37,000		
Remodel 3d floor bathroom	12,000		
Exterior preparation and painting		85,000	
Upgrade kitchen		39,000	
Replaster/repair interior walls/upgrade association wiring IAW electrical code			105,000
Total	178,000	275,000	262,000

National Security Council

STATEMENT OF COL. MICHAEL O. WHEELER, STAFF SECRETARY

OPENING REMARKS

Senator Abdnor. Our next witness will be Col. Michael Wheeler, Staff Secretary of the National Security Council. This is Colonel Wheeler's first opportunity to appear before this subcommittee, and we certainly welcome you.

And as I said to Mr. Rogers, your entire statement will be made a part of the record; and you can proceed in any manner in which you care.

Colonel Wheeler. Thank you very much, Mr. Chairman.

I'd like to take a moment to give you a few brief remarks on the ongoing operations of the National Security Council, as much to underline and place in perspective the statement, as anything else.

In the last year the National Security Council met approximately 50 times with the President chairing each meeting. This brings the total number of meetings up to approximately 150 over the course of the administration thus far, which is an average of a little more than 1 a week.

It has been a very active system under President Reagan, I think——

NSC MEETINGS

Senator Abdnor. Who all sits in on it? Are they people within your organization?

Colonel Wheeler. No, sir. The National Security Council, as it was created in 1947, is a cabinet organization for the President, if you will. The statutory members are the Vice President, the Secretary of State, and Secretary of Defense. The statutory military advisors are the Joint Chiefs of Staff, although the Chairman of the Joint Chiefs normally will represent them, and the statutory intelligence advisor is the Director of Central Intelligence. Over and above that, the President may designate any other senior officials that he wishes to attend. In this administration, normally several senior White House aides will be present at each meeting certainly, Judge Clark, his National Security Advisor, who he depends on to set the agenda for the National Security Council. Frequently the Ambassador to the United Nations, Ambassador Kirkpatrick, will fly back from New York for a meeting. The financial and commercial officials of the Government, as necessary, will attend the meeting. And so forth.

As for my organization, Mr. Chairman, the appropriations that I'm testifying for today are for the National Security Council Staff, which is the staff arm that supports the National Security Council, itself.

Additionally, in our appropriations request we've included the President's Foreign Intelligence Advisory Board and the Intelligence Oversight Board, which are elements of the White House Office.

If that answers your question, Mr. Chairman?

Senator ABDNOR. Go right ahead; yes.

Colonel WHEELER. Fine. I'll continue.

Senator ABDNOR. It makes it better for me, I'll have a better understanding.

NATURE OF ACTIVITIES

Colonel WHEELER. Yes, sir.

I'll continue to place in perspective the nature of the appropriations request. Over the course of the administration the President has issued approximately 100 major decision memoranda through the National Security Council system. These cover national security policy issues ranging from negotiation instances for activities such as the START negotiations, to sensitive policy questions that affect defense, diplomatic, commercial, or financial activities of the United States abroad. Anything that would fall under the general rubric of national security affairs is appropriately addressed within this system.

In addition to those kinds of activities, since 1947 when the National Security Council was set up, it has provided the President an immediate staff arm in his immediate family for support of his day-to-day activities in national security affairs—for instance, to help deal with the tremendous amount of correspondence that he receives.

We at the moment have several hundred diplomatic posts in approximately 136 countries around the world. We have hundreds of thousands of military forces deployed abroad. The intelligence community, of course, is active. Through this vast global network, approximately 200,000 cables flowed into the White House last year. This was the tip of the iceberg of cable traffic that is reporting back on developments overseas to the departments and agencies that comprise the national security community. The cable traffic that is deemed to be the most important brought to the President's attention, flowing in 24 hours a day, 7 days a week.

Over 20,000 major pieces of correspondence also arrived at the National Security Council Secretariat last year for the attention of the President, or as he delegates, for handling by the National Security Advisor and the Staff of the National Security Council, itself.

In short, Mr. Chairman, the picture that I'm painting is that U.S. national security interests are widespread today. And they require a vast network of personnel throughout the world. They involve keeping the President abreast of activities that are going on day and night 7 days a week.

The appropriations requests that we have made, for $4,497,000, we feel to be a very austere but an adequate budget to staff the activities of the sort that I have mentioned a few moments ago.

With that, Mr. Chairman, I will conclude my remarks and would be happy to answer any questions that you may have?

PERSONNEL

Senator ABDNOR. Well, thank you.

I do have just a few questions here I'd like to ask you, Colonel.

In looking over your budget a review of the permanent positions chart indicates that the net change is a reduction of one position; I think that's correct?

Colonel WHEELER. Yes, a net reduction of one position.

Senator ABDNOR. However, there are considerable changes in the total with respect to GS positions; could you explain why?

Colonel WHEELER. GS positions in terms of total compensable workers, Mr. Chairman?

Senator ABDNOR. It's the ratings more that we're talking about.

Colonel WHEELER. The ratings, the rise from an average GS grade of 11.1 in 1982 to close to 12 for the fiscal year 1984 budget?

Senator ABDNOR. Yes?

Colonel WHEELER. The explanation of that, Mr. Chairman, involves several elements:

One is the transition to a more austere era. After a period of time when the experience has been the grade growth across the support staff of the National Security Council increasing at what we now view to be an unacceptably high rate, we are in the process at the moment of attempting to decelerate that, but to decelerate in a way which does not severely affect morale of what has always been a fairly elite organization.

When we talked about the National Security Council staff proper, we're talking about a group of individuals occupying approximately three or four dozen professional, analytic positions who each are accorded the protocol rank of assistant secretary or higher, throughout the Government.

In other words, if they were to travel in the official party of the Secretary of State when he would go to a major conference overseas, they would be treated as his Assistant Secretaries would. Their day-to-day operating activities involve their dealing as Assistant Secretaries.

Senator ABDNOR. Well, then, you treat them just like Assistant Secretaries, is that what you're telling us?

Colonel WHEELER. I'm telling you that, Mr. Chairman, and I'm also telling you that it has been common practice that these individuals will have clerical support, one secretary, perhaps two secretaries per small cluster. That clerical support has been graded at the levels that one would find at Assistant Secretary level in the departments, also; hence, the base for our secretarial support in the National Security Council started fairly high a decade ago. And if over and above that you find secretaries who are particularly competent and whose institutional memories are valued from one change of administration to another, which has been the case in the support staff——

Senator ABDNOR. Have all of these people been around for several years or more, or for more than one administration?

Colonel WHEELER. Absolutely, many have. On the support staff some have been around for a decade or longer, Mr. Chairman, and for them to have had promotions during that course of time, where they first joined the staff at a GS-8 or GS-9 level, has moved the secretary-support level up higher than it otherwise would have been if we were not under the general schedule system.

The other major element of our support staff that's been a fairly permanent fixture—permanent in the sense that from one administration to another, you find it staying in place—has been the support staff associated with the Executive Secretariat, our information-management operation, if you will.

The grade-creep that we see in those figures has been of managerial concern to myself and to the National Security Advisor. We have been examining in part with the help of an independent team including expertise from the Office of Personnel Management team that looked at our personnel system for us a year ago, various ways that we can address this and other personnel questions.

Senator ABDNOR. Well, if we have questions, we can always submit them to you in writing.

Colonel WHEELER. Fine.

SPACE REQUIREMENTS

Senator ABDNOR. This has caused us to wonder about it.

Did you use that same logic, then, when you reduced your staff by one; but you are requiring more space?

Colonel WHEELER. The—more space in terms of total compensable work area?

Senator ABDNOR. Yes.

Colonel WHEELER. The logic there is two or threefold, Mr. Chairman:

Since Sidney Souers, the first Executive Secretary, put together the staff of the National Security Council in late 1947, the staff has been composed of several elements. One element would be the permanent staff, that is to say, the full-time, permanent positions that are reflected in figure 58 of fiscal year 1984. A second element of the staff has been detailees from other departments that compose the national security system. In my case, for instance, I'm detailed at the moment from the Defense Department.

A third element that has evolved over the years through eight administrations and essentially 12 different National Security Council systems through changes of National Security Advisors, has been a mechanism for staffing which allows you to utilize individuals in either a consultant capacity or an intermittent capacity—in a part-time, or a temporary capacity.

For instance, by temporary, we could refer to distinguished professors from various academic institutions, who are tenured and realize that they can commit themselves to service on the National Security Council staff for only a short period of time before they must return to their university.

Senator ABDNOR. Has this been going on for a long time or did that just start now?

Colonel WHEELER. It's been going on since 1947, Mr. Chairman.

Senator ABDNOR. Well, that's my question, then: why do they need more space, if they had enough before? Or didn't they have enough before? Is that what we're saying? Or what?

Colonel WHEELER. What we're saying with the need for more space, Mr. Chairman, is that we did not have enough in 1982, January 4, 1982, when Judge Clark was appointed by the President as his National Security Advisor.

Senator ABDNOR. Oh, that's the reason.

And does this conform with the new Government-wide space requirement regulations? Are we in the ballpark on that?

Colonel WHEELER. Yes, we are, Mr. Chairman. Our budget request has been thoroughly reviewed in the Office of Management and Budget, with all regulations in mind.

Senator ABDNOR. Fine. I guess that's all we want to know.

Colonel WHEELER. Yes, sir, I would be happy to provide the information; I want to make sure I understand the thrust of your question.

PREPARED STATEMENT

Senator ABDNOR. If we have any other questions we will submit them in writing, you bet. Otherwise I think this is all very well; and I thank you for coming. We will insert your statement in the record at this point.

Colonel WHEELER. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF MICHAEL O. WHEELER

Mr. Chairman, the National Security Council was established by law after World War II, to provide an executive branch framework for review and decision by the President of policies relating to the national security. The flexible structure of the Council system allows for coordinated, thorough development and presentation of policy options and implementation of policy decisions, adapted to the personal style, working habits, and requirements of an incumbent President. Faced with the realities of an increasingly complicated world and ever changing circumstances, this system has proved to be a durable institution.

Today you are considering a request for $4,497,000 for the expenses of the National Security Council. This would fund the central supporting staff of the National Security Council, as well as the Intelligence Oversight Board and the President's Foreign Intelligence Advisory Board. The details of this request have been made available to the Congress.

Mr. Chairman, I would be pleased to answer any questions.

BIOGRAPHY OF COL. MICHAEL O. WHEELER

Col. Michael O. Wheeler is the Staff Secretary of the National Security Council, Executive Office of the President, Washington, D.C.

Born December 8, 1944, in Mauston, Wis., Colonel Wheeler is a legal resident of New Mexico. He graduated from the U.S. Air Force Academy in 1966 as a distinguished graduate.

Following a short Air Force Institute of Technology (AFIT) graduate program in political science at Georgetown University, Colonel Wheeler was assigned to Headquarters Tactical Air Command as an intelligence officer working principally on operations plans related to Southeast Asia. In 1968 Colonel Wheeler reported to the 355th Tactical Fighter Wing, Takhli, Thailand, as an intelligence officer. At the time, the 355th was heavily involved in the Rolling Thunder air offensive against North Vietnam.

Upon completion of his Southeast Asia tour, Colonel Wheeler entered an AFIT graduate program in philosophy at the University of Arizona, followed in 1971 by assignment to the faculty of the Air Force Academy. He served on the faculty until 1975, advancing to the position of associate professor in the Department of Political Science and Philosophy.

In December 1975, Colonel Wheeler joined the Directorate of Plans on the Air Staff, in the Strategy Development and Analysis Division. His responsibilities included strategic nuclear and politico-military affairs issues. In June 1977, he became Special Assistant to the Chief of Staff of the Air Force, working on special projects including planning for the strategic bomber force, SALT II, and politico-military affairs. In 1978, Colonel Wheeler was selected to be a White House Fellow.

During his Fellowship, Colonel Wheeler served in the State Department and the Nuclear Regulatory Commission. At the conclusion of the Fellowship, he was assigned to the organization of the Joint Chiefs of Staff as Special Assistant to the Chairman of the Joint Chiefs. His responsibilities while working for the Chairman from 1979 to 1982 included politico-military affairs, strategic missile force modernization, and national security organization.

In January 1982, Colonel Wheeler was selected to be the Staff Secretary of the National Security Council and was detailed to the Air Force Element at the White House.

Colonel Wheeler's decorations include the Defense Superior Service Medal, the Bronze Star Medal, the Meritorious Service Medal with two oak leaf clusters, and the Air Force Commendation Medal. Colonel Wheeler has completed the nonresident courses at the Air Force Squadron Officer School, Air Command and Staff College, and the Industrial College of the Armed Forces. During his AFIT tours, he has earned a Ph. D.

Colonel Wheeler authored "Loyalty, Honor, and the Modern Military" which appeared in the May/June 1973 issue of Air Univesity Review, and "The Employment of Tactical Air Power" which appeared in the September/October 1975 issue. He coauthored with Lt. Gen. John W. Pauly "A Strategic Concept for Defense" which was published in the summer 1976 issue of Strategic Review. A paper on measuring the strategic balance, which Colonel Wheeler authored, was presented at a 1976 conference of the International Institute for Strategic Studies. In addition to membership in various professional military and alumni associations, Colonel Wheeler is a member of the World Affairs Council of Washington, D.C.

He is married to the former Kathleen Ann Thomas of Manitou Springs, Colo. They reside in the northern Virginia suburbs of Washington, D.C.

Office of Federal Procurement Policy

STATEMENT OF DONALD E. SOWLE, ADMINISTRATOR

ACCOMPANIED BY DAVID F. BAKER, ACTING ASSOCIATE ADMINISTRATOR FOR MANAGEMENT CONTROLS, OFPP

PREPARED STATEMENT

Senator ABDNOR. Our next witness will be Donald E. Sowle, who is the Administrator for the Office of Federal Procurement Policy.

We welcome you, Mr. Sowle, and I am sure we need not tell you we will put your entire written statement in the record; and we'll just ask you to summarize your comments in any way you care to.

[The statement follows:]

STATEMENT OF DONALD E. SOWLE

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THIS SUBCOMMITTEE TO DISCUSS THE APPROPRIATION FOR THE OFFICE OF FEDERAL PROCUREMENT POLICY.

OUR ESTIMATED REQUIREMENTS FOR FISCAL YEAR 1984 ARE $2,714,000 WHICH REPRESENT AN INCREASE OF $219,000 OVER OUR ESTIMATED REQUIREMENTS FOR FY 83. OUR MANNING STRENGTH IS CURRENTLY SET AT 41 PERMANENT PERSONNEL, A LEVEL AT WHICH WE EXPECT TO REMAIN DURING THE COMING FISCAL YEAR.

ALTHOUGH SOME SAVINGS WILL BE ACHIEVED BY REDUCING PRINTING AND TRAVEL EXPENSES, OVERALL COSTS TO OPERATE THE OFFICE WILL NECESSARILY BE GREATER. THIS IS DUE TO A SUBSTANTIAL INCREASE IN COSTS FOR OFFICE SPACE (OUR STANDARD LEVEL USER CHARGE AT THE NEW EXECUTIVE OFFICE BUILDING WILL GO FROM $13 TO $29 PER SQUARE FOOT ON OCTOBER 1, 1983) AND DUE TO NORMAL WITHIN GRADE AND PROMOTION ALLOWANCES. ABSENT THE INCREASE IN RENT AND MANDATORY PAY INCREASES, OFPP'S FY 84 BUDGET WOULD DECLINE BELOW THAT OF FY 83.

IN ADDITION TO OUR FISCAL YEAR 1984 BUDGET ESTIMATE, WE ARE ALSO REQUESTING A FISCAL YEAR 1983 SUPPLEMENTAL OF $95,000 TO SUPPORT EXECUTIVE AND GENERAL SCHEDULE PAY INCREASES THROUGH SEPTEMBER 30, 1983, AS MANDATED BY THE CONGRESS.

OFPP - BACKGROUND AND MISSION

THE OFFICE OF FEDERAL PROCUREMENT POLICY WAS CREATED AS A STATUTORY COMPONENT OF THE OFFICE OF MANAGEMENT AND BUDGET BY PUBLIC LAW 93-400 IN 1974 AND AUTHORIZED FOR FIVE YEARS. IN 1979, THE OFFICE WAS REAUTHORIZED FOR FOUR MORE YEARS BY PUBLIC LAW 96-83. THE CURRENT AUTHORIZATION EXPIRES IN OCTOBER 1983. THE ADMINISTRATION IS COMMITTED TO SEEKING LEGISLATION TO, AGAIN, REAUTHORIZE THE OFFICE. LEGISLATION TO DO SO HAS BEEN INTRODUCED IN BOTH HOUSES.

THE FEDERAL PROCUREMENT PROCESS IS ONE OF THE MAJOR PROCESSES OF GOVERNMENT - IN THAT IT IMPACTS ONE OUT OF EVERY FIVE DOLLARS SPENT BY THE FEDERAL GOVERNMENT, OR NEARLY $160 BILLION ANNUALLY. OFPP WAS ESTABLISHED TO IMPROVE THE ECONOMY, EFFICIENCY AND EFFECTIVENESS OF FEDERAL PROCUREMENT BY PROVIDING OVERALL DIRECTION OF PROCUREMENT POLICIES, REGULATIONS, PROCEDURES AND FORMS USED BY FEDERAL AGENCIES. AS INTENDED BY CONGRESS, OFPP SERVES AS THE FOCAL POINT GOVERNMENT-WIDE ON FEDERAL PROCUREMENT POLICY MATTERS FOR THE PRESIDENT, CONGRESS, EXECUTIVE AGENCIES, AND THE PRIVATE SECTOR.

AS NOTED IN OUR WRITTEN BUDGET REQUEST, WE ARE SEEKING LEGISLATION TO TRANSFER THE FEDERAL ACQUISITION INSTITUTE, INCLUDING 16 STAFF POSITIONS AND $969,000 IN OPERATING FUNDS, TO THE GENERAL SERVICES ADMINISTRATION. OUR DECISION TO SEEK SUCH ACTION WAS BASED ON A REVIEW OF FAI'S MISSION TO SERVE AS THE INTERAGENCY FOCAL POINT FOR PROMOTING AND COORDINATING PROGRAMS FOR PROCUREMENT RESEARCH, TRAINING, AND CAREER DEVELOPMENT. THIS REVIEW LED US TO CONCLUDE THAT THE PUBLIC INTEREST WOULD BE BETTER SERVED IF RESPONSIBILITY WERE ASSIGNED TO A LINE AGENCY (GSA) -- RATHER THAN TO A STAFF AGENCY LIKE OMB, WHOSE PRIMARY RESPONSIBILITY IS TO ADVISE THE PRESIDENT ON BUDGETARY AND MANAGEMENT POLICIES.

UNIFORM FEDERAL PROCUREMENT SYSTEM

FOR THE LAST TWO YEARS, THE OFFICE'S TOP PRIORITY HAS BEEN TO FULFILL THE REQUIREMENT OF PUBLIC LAW 96-83 TO DEVELOP AND SUBMIT TO CONGRESS A COMPREHENSIVE, INTEGRATED PROPOSAL FOR A UNIFORM FEDERAL PROCUREMENT SYSTEM ("UFPS"). WE HAVE DEDICATED THE BULK OF OUR RESOURCES TO THIS PROJECT.

THAT PROPOSAL, WHICH REFLECTS THIS ADMINISTRATION'S COMMITMENT TO PROCUREMENT REFORM, WAS SUBMITTED TO THE CONGRESS ONE YEAR AGO. IT UPDATES AND BUILDS UPON THE COMPREHENSIVE STUDY PERFORMED BY THE COMMISSION ON GOVERNMENT PROCUREMENT AND REPRESENTS A BASE LINE UPON WHICH WE CAN ESTABLISH A MODERN PROCUREMENT SYSTEM FOR THE FEDERAL GOVERNMENT. WHEN FULLY IMPLEMENTED, IT HAS THE POTENTIAL FOR GREATLY IMPROVING PROCUREMENT PRACTICES AND SIGNIFICANTLY REDUCING PROCUREMENT COSTS - PERHAPS BY AS MUCH AS $9 BILLION ANNUALLY.

IMPLEMENTATION OF PROCUREMENT REFORMS

PRESIDENT REAGAN ISSUED EXECUTIVE ORDER NO. 12352 ON FEDERAL PROCUREMENT REFORMS ON MARCH 17, 1982. THE ORDER IS VERY SIGNIFICANT - FOR THIS ADMINISTRATION, IN GENERAL, AND THE OFFICE OF FEDERAL PROCUREMENT POLICY, IN PARTICULAR. IT DIRECTS THE HEADS OF AGENCIES TO IMPLEMENT THE PRINCIPAL ADMINISTRATIVE REFORMS CALLED FOR BY THE UFPS PROPOSAL.

UNDER THE LEADERSHIP OF OFPP AND AN EXECUTIVE COMMITTEE ON FEDERAL PROCUREMENT REFORMS, SIX INTERAGENCY TASK GROUPS INVOLVING 130 PEOPLE FROM 26 FEDERAL AGENCIES HAVE BEEN WORKING TO DEVELOP GUIDANCE ALL AGENCY HEADS CAN USE TO IMPLEMENT VARIOUS PROVISIONS OF THE EXECUTIVE ORDER WITHIN THEIR

ORGANIZATIONS. ONE TASK GROUP COMPLETED ITS EFFORT IN JUNE 1982 WITH THE SUBMISSION OF A MODEL CHARTER FOR AGENCY PROCUREMENT EXECUTIVES. THE DIRECTOR OF OMB DISTRIBUTED THE MODEL CHARTER TO AGENCY HEADS LAST JULY, AND REQUESTED THAT EACH DESIGNATE A PROCUREMENT EXECUTIVE TO MANAGE AND OVERSEE THE AGENCY'S PROCUREMENT SYSTEM. FORTY-FIVE AGENCIES HAVE DESIGNATED PROCUREMENT EXECUTIVES AND ARE IN THE PROCESS OF INTEGRATING THE ROLE AND FUNCTIONS OF THESE EXECUTIVES INTO THEIR ORGANIZATIONAL STRUCTURES. THIS IS AN ESSENTIAL FIRST STEP TOWARD IMPROVEMENT OF AGENCIES' PROCUREMENT SYSTEMS. ACTUAL CHANGE CAN ONLY BE EXPECTED TO TAKE PLACE IF AN OFFICIAL WITH ADEQUATE AUTHORITY AND STATURE IN EACH AGENCY IS CLEARLY RESPONSIBLE AND ACCOUNTABLE FOR SYSTEM PERFORMANCE. THE MODEL CHARTER HAS BEEN OF GREAT ASSISTANCE TO THE AGENCIES IN IMPLEMENTING THE EXECUTIVE ORDER'S REQUIREMENT THAT PROCUREMENT EXECUTIVES BE ESTABLISHED.

THE OTHER TASK GROUP EFFORTS WILL BE COMPLETED BETWEEN JUNE AND DECEMBER OF THIS YEAR. THEIR PRODUCTS WILL BE PROVIDED TO THE AGENCIES AS GUIDANCE TO ASSIST THEM IN CARRYING OUT THE RESPONSIBILITIES UNDER THE EXECUTIVE ORDER.

CONCURRENT WITH THE TASK GROUP ACTIVITY, THE THREE AGENCIES RESPONSIBLE FOR PROMULGATING PROCUREMENT REGULATIONS - THE DEPARTMENT OF DEFENSE, THE GENERAL SERVICES ADMINISTRATION, AND THE NATIONAL AERONAUTICS AND SPACE ADMINISTRATION - HAVE STEPPED UP THEIR EFFORTS TO COMPLETE THE NEW FEDERAL ACQUISITION REGULATION - KNOWN AS THE "FAR" - WHICH IS TO BECOME EFFECTIVE ON APRIL 1, 1984. OFPP IS WORKING CLOSELY WITH THESE AGENCIES TO ENSURE THAT THE FAR IS COMPLETED AND DISTRIBUTED AS SOON AS POSSIBLE. OFPP IS ALSO CONTINUING ITS LEADERSHIP ROLE IN ENCOURAGING AGENCY MANAGERS WHO HAVE TO IMPLEMENT THE FAR TO

INCREASE THEIR EFFORTS IN THIS AREA, PARTICULARLY IN PREPARING ANY NECESSARY REGULATORY SUPPLEMENTS AND FAMILIARIZING THEIR WORK FORCES WITH THE NEW REGULATION.

THE THIRD FOCUS OF OUR IMPLEMENTATION EFFORT HAS BEEN WORKING WITH THE AGENCIES AND THE OFFICE OF PERSONNEL MANAGEMENT TO RESOLVE PROBLEMS IN PERSONNEL CLASSIFICATION AND QUALIFICATION STANDARDS. INADEQUATE STANDARDS CAN HAVE SERIOUS ADVERSE AFFECTS ON THE IMPROVEMENT AND PROFESSIONALISM OF THE PROCUREMENT WORK FORCE, AND ON AGENCIES' ABILITIES TO REALIZE LASTING PROCUREMENT REFORMS.

OFPP HAS BEEN THE CATALYST AND COORDINATOR OF ALL THESE ACTIVITIES. AS THE TASK GROUP PRODUCTS ARE DISSEMINATED AND THE FAR IS PUBLISHED, EVEN MORE INTENSIVE COORDINATION WILL BE NECESSARY TO ENSURE THAT AGENCIES FOLLOW THROUGH TO EFFECTIVELY IMPLEMENT THE GUIDANCE AND REGULATIONS.

IN ADDITION TO ITS WORK UNDER E.O. 12352, OFPP IS PURSUING OTHER ASPECTS OF THE PROPOSED UFPS WHICH REQUIRE STATUTORY CHANGE. OUR APPROACH HAS BEEN TO SEEK NEEDED CHANGES INCREMENTALLY RATHER THAN THROUGH OMNIBUS LEGISLATION. CURRENT PRIORITIES INCLUDE LEGISLATION TO ENHANCE COMPETITION, AND RAISE THE SMALL PURCHASE THRESHOLD FOR CIVIL AGENCIES SO THAT MORE PURCHASES CAN BE MADE UNDER SIMPLIFIED PROCEDURES.

OFPP OPERATIONS IN FY 1984

MAJOR OFPP EFFORTS IN FY 1984 WILL BE (1) FACILITATING THE TRANSITION TO THE FAR AND (2) ESTABLISHING BONA FIDE PROCUREMENT SYSTEMS WITH SYSTEM STANDARDS IN THE AGENCIES. THESE ARE LONG-TERM PROJECTS THAT WILL REQUIRE THE CONTINUED LEADERSHIP AND

ACTIVE INVOLVEMENT OF OFPP. SUCCESSFUL COMPLETION OF THESE TWO MAJOR EFFORTS WILL SIGNAL THE REAL BEGINNING OF THE UNIFORM FEDERAL PROCUREMENT SYSTEM DESCRIBED IN THE ADMINISTRATION'S FEBRUARY 26, 1982 PROPOSAL.

I EXPECT THAT IMPLEMENTATION OF E.O. 12352 AND RELATED PROGRAMS WILL ABSORB MUCH OF THE OFFICE'S RESOURCES AND ENERGIES DURING FISCAL YEAR 1984. TO REFLECT THIS ORIENTATION, I HAVE ASSIGNED ONE KEY ELEMENT OF OFPP THE RESPONSIBILITY OF OVERSEEING IMPLEMENTATION OF THE EXECUTIVE ORDER. VIRTUALLY ALL MEMBERS OF THE OFPP STAFF, HOWEVER, WILL BE CONTRIBUTING TO THIS IMPORTANT PROGRAM.

THERE WILL, OF COURSE, BE MANY OTHER PROJECTS AND PROGRAMS WHICH THE OFFICE WILL ADDRESS IN PERFORMING ITS STATUTORY MISSION AND WHICH ARE DESCRIBED MORE FULLY IN OUR WRITTEN BUDGET JUSTIFICATION. TYPICAL OF THESE IS THE ONGOING NEED TO KEEP OUR POLICY ISSUANCES CURRENT AND RESPONSIVE. DURING THE COMING YEAR, WE ARE PLANNING, IN RESPONSE TO RECOMMENDATIONS OF THE ADMINISTRATION'S REFORM '88 PROGRAM ON MANAGEMENT IMPROVEMENT, TO REVIEW AND REVISE OR RESCIND SEVERAL OMB CIRCULARS FOR WHICH WE ARE RESPONSIBLE. I INTEND TO RELY HEAVILY ON INTERAGENCY TASK GROUPS TO ASSIST IN THIS PROGRAM AND TO DEVELOP AND MAINTAIN OTHER NECESSARY PROCUREMENT POLICIES AND PROCEDURES. THIS WILL PERMIT US TO PLAY THE ROLE CONGRESS INTENDED, NAMELY, THAT OF POLICY LEADER, CATALYST AND OVERSEER. IT WILL ALSO PERMIT OFPP TO OPERATE WITH A VERY SMALL PERMANENT STAFF OF 25 PROFESSIONAL AND CLERICAL EMPLOYEES - AFTER THE PLANNED TRANSFER OF 16 STAFF MEMBERS, CURRENTLY ASSIGNED TO THE FEDERAL ACQUISITION INSTITUTE, TO GSA.

SUMMARY

I AM CONFIDENT THAT AGENCY IMPLEMENTATION OF THE COMPREHENSIVE SYSTEM OF PROCUREMENT REFORMS WE HAVE INITIATED - SEVERAL OF WHICH I HAVE OUTLINED FOR YOU - WILL PROMOTE ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE PROCUREMENT OF PROPERTY AND SERVICES FOR THE EXECUTIVE BRANCH. THIS PROGRAM CANNOT BE ACCOMPLISHED OVERNIGHT, BUT AT LONG LAST, WE HAVE - IN THE UNIFORM FEDERAL PROCUREMENT SYSTEM PROPOSAL AND IN EXECUTIVE ORDER 12352 - A SOLID FOUNDATION UPON WHICH TO BUILD. WITH YOUR HELP AND THE CONTINUED COOPERATION OF THE EXECUTIVE AGENCIES, I CAN ASSURE YOU THAT THE MODEST APPROPRIATION REQUESTED FOR FISCAL YEAR 1984 WILL BE RETURNED TO THE AMERICAN TAXPAYER MANY-FOLD.

YOU MAY ALSO BE ASSURED THAT I WILL CONTINUE TO PROVIDE TO THE BEST OF MY ABILITY THE DIRECTION AND LEADERSHIP NECESSARY FOR THE ATTAINMENT OF THE GOALS WHICH THE CONGRESS AND THE ADMINISTRATION HAVE SET.

MR. CHAIRMAN, I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS YOU OR THE SUBCOMMITTEE MAY HAVE.

Biography of Donald E. Sowle

Mr. Sowle was nominated by the President as Administrator For Federal Procurement Policy on March 19, 1981, and confirmed by the United States Senate on June 16, 1981. Earlier he was President of Don Sowle Associates, Inc., a diversified management consulting firm.

From 1970-73 he was the Director of Studies for the Congressional Commission on Government Procurement. Prior to that position, he was a group vice president of Gulf & Western Industries, Inc., and before that an Assistant Director of the Jet Propulsion Laboratory, California Institute of Technology.

Mr. Sowle graduated from Central Michigan University with a Bachelor of Science degree in mathematics and business. He earned his Master's degree in business administration from the University of Chicago Graduate School of Business in production management. He also completed work in radar and ultra high frequency techniques at Harvard University and the Massachusetts Institute of Technology.

Mr. Sowle is a member of the Beta Gamma Sigma, National Honorary Society, Schools of Business and Commerce; the National Aviation Club; the Capitol Hill Club; and the National Contract Management Association. He is past president of the Coordinating Council of LaCanada, California. He was a member of the faculty, School of Business, Georgetown University from 1961 to 1965. He was also an Adjunct Professor at American University. He is a Fellow and a member of the Board of Advisors of the National Contract Management Association, a member of the Board of Regents of the Institute of Cost Analysis, and a member of the Board of Visitors of the Procurement, Acquisition and Grants Management Program at The American University.

BIOGRAPHY OF DAVID F. BAKER

Mr. David F. Baker is the Acting Associate Administrator for Management Controls in the Office of Federal Procurement Policy, Office of Management and Budget. Prior to assuming that position in October 1982, Mr. Baker served in a series of capacities since joining the OFPP in 1975 and, before that, as a project officer at the Headquarters, Defense Contract Administration Services, Defense Logistics Agency. Having entered the Federal Civil Service in 1963, Mr. Baker's government career has been centered in various aspects of management and contract administration.

Originally from Hays, Kansas, Mr. Baker holds a Bachelor of Arts degree from Ft. Hays Kansas University and a Master of Public Administration degree from Harvard University.

Mr. Baker resides with his wife, Janet, in Alexandria, Virginia.

INTRODUCTION OF ASSOCIATES

Mr. SOWLE. Thank you, Mr. Chairman.

I would like to introduce Mr. David Baker, who is my Associate Administrator for Management Controls. Mr. Baker was instrumental in putting our budget together this year.

I will abbreviate, Mr. Chairman; I don't have an abbreviated statement, but after I get past the first few lines, I will summarize what we do in the Office of Federal Procurement Policy.

REQUIREMENTS FOR FISCAL YEAR 1984

Our estimated requirements for fiscal year 1984 are $2,714,000 which represents an increase of $219,000 over our estimated requirements for fiscal year 1983.

Our manning strength is currently set at 41 permanent personnel, a level at which we expect to remain during the coming fiscal year.

Although some savings will be achieved by reducing printing and travel expenses, overall costs to operate the Office will necessarily be greater. This is due to a substantial increase in cost for office space—our standard level user charge at the New Executive Office Building will go from approximately $13 to $29 a square foot in October of this year—and due to normal within grade and promotion allowances. Absent the increase in rent and mandatory pay increases, OFPP's fiscal year 1984 budget would decline below that of fiscal year 1983.

In addition, Mr. Chairman, we are asking for a supplemental of $95,000 to support the executive and general schedule pay increases through September of 1983.

Now, if I can summarize the rest of my statement, Mr. Chairman:

BACKGROUND

Federal procurement, as you know, amounted to about $160 billion in fiscal year 1982, with about 18 million procurement actions. Twenty percent of the Federal budget is expended through prime contracts. There are approximately 130,000 people involved in the Federal procurement process, itself.

The Office of Federal Procurement Policy was first created in 1974 by Public Law 93–400, based primarily upon a congressional commission which recommended the establishment of the Office. Its purpose, primarily, is to coordinate and actually direct Government-wide procurement policies, procedures, regulations, and forms.

In 1979 when the Office was reauthorized by Public Law 96–83, the Congress gave us three additional functions which have been the overriding responsibilities of the office during the last 2 years. These functions were basically to devise a new procurement system and a management system for procurement, and to recommend whatever statutory changes were necessary in order to make these two systems effective.

This proposal for a uniform Federal procurement system was submitted to the Congress in February 1982. It went forward as an administration proposal, not just a proposal of the Office of Federal Procurement Policy.

The proposal basically had two major thrusts to it: One required legislative changes; while the other could be done administratively.

EXECUTIVE ORDER 12352

In March, right after the proposal went forward, the President issued Executive Order 12352 which, in effect, took all of those things that could be done by the administration, and said, let's get started on those; and we'll let the Congress work on the statutes. Let's move now with the things we can move on.

The Executive Order required that the heads of agencies proceed with procurement reform along several different lines based on the proposal that was submitted.

In addition, the President said that we needed a single regulation for procurement called the FAR, the Federal Acquisition Regulation, and he put that requirement on the three regulatory agencies: the Department of Defense, GSA, and NASA. He directed them to have the first printing of the FAR by December 1982.

This has been done.

He also recognized the very important need for improving the quality of the procurement work force. If we're going to have real, meaningful, procurement reform, the work force has got to be there in order to see that it's done. And so he put a requirement on the agency heads and the head of the Office of Personnel Management to get together to assure that we have the proper and the correct qualification and classification standards. This is still underway.

The President also gave the Office of Federal Procurement Policy the responsibility of seeing that the whole procurement reform effort was coordinated and that progress reports were made to the President periodically. This is now ongoing. We have six interagency task groups developing guidance for agencies to use in implementing reforms. The groups are addressing the various areas of procurement reform that were spelled out in the proposal that was submitted to Congress, as well as in the Executive Order. One group completed its mission in June of last year. The other five task groups have been working for approximately 1 year. We expect their work to be completed between June and December of this year.

SUMMARY

And so, Mr. Chairman, over this next year, we really have our work cut out for us in the Office of Federal Procurement Policy. We will be working on these procurement reforms and with the agencies and with the task groups, to assure that we're doing everything that we can to promote economy, efficiency, and effectiveness within the Federal procurement process.

I think we do have the foundation for procurement reform laid. We have, as I just mentioned, an awful lot of work to do; and I think, Mr. Chairman, that the modest budget that we are requesting is not only needed but it is adequate to permit us to proceed with the President's and the Congress' direction.

Senator ABDNOR. Well, thank you.

You certainly do have your work cut out for you in all your reports.

Is the administration seeking to transfer authority for the Federal Acquisition Insitute—FAI—from the Office of Federal Procurement Policy to the GSA?

Mr. SOWLE. Yes, sir, that's true.

Senator ABDNOR. Is that transfer reflected in this budget request?

Mr. SOWLE. That transfer is reflected in the budget request. The $2.174 million includes the FAI's budget. It's about a third of the total and would be transferred when we get authority, legislatively, to transfer the FAI.

We do need congressional approval to transfer the FAI. When that transfer is authorized, the funds will go with the organization.

Senator ABDNOR. Well, it seems that with your budget SLUC is going to make up a large part of your increase.

Mr. Sowle. That's true.

Senator Abdnor. In 1984?

Mr. Sowle. Yes, sir.

Senator Abdnor. Do you think these increases are justifiable?

Mr. Sowle. If you're talking about the increased SLUC rate, that represents a major part of our budget increase, basically, outside of the increased personnel costs. They are mandatory.

Senator Abdnor. Yes.

Mr. Sowle. We are a renter, so to speak, and the GSA has said that it is trying to equate or conform the Government rental rates to the market rates in the Washington area.

And, of course, we take the brunt of that.

Senator Abdnor. Yes.

Mr. Sowle. It must be a good idea, Mr. Chairman, or they wouldn't do it. I hate to pay for it, though.

Senator Abdnor. Yes. [Laughter.]

We'll have to check into that further.

Do we see general acceptance of the new Federal procurement process, or is there reluctance?

Mr. Sowle. Yes, sir, I think we're having an extraordinary amount of acceptance of what we're trying to do. I think this is demonstrated by the existence and work of the six interagency task groups—these are chaired by either a general or a flag officer from the Defense Department, or by SES personnel within the civilian structure. We have about 130 people in the task groups. I think 26 agencies are represented on these groups.

And from what I can see to date, we have some really good ideas coming out for improving the entire Federal procurement process.

These products, incidentally, will be given to the agency heads. They are the managers, and they are the ones who will benefit from these interagency task groups.

We are getting very good support for the reforms that are needed. And the President has certainly been behind this reform.

Senator Abdnor. I assure you we will be interested in your findings over the next year to see how things go and what you come up with.

We certainly thank you for your attendance this morning and commend you for the job you people are doing, and hope you are as successful as you have been in the past.

Mr. Sowle. Thank you very much, Mr. Chairman.

PROPERTY REVIEW BOARD

STATEMENT OF JOSHUA A. MUSS, EXECUTIVE DIRECTOR

ACCOMPANIED BY BRUCE SELFON, DEPUTY DIRECTOR

PREPARED STATEMENT

Senator ABDNOR. Our final witness this morning is Joshua Muss, Executive Director of the Propery Review Board; and Mr. Muss is also making his first appearance today before us. And we welcome you.

We'll put your entire written statement into the record; and from that point on you just continue in any way you wish.

[The statement follows:]

STATEMENT OF JOSHUA A. MUSS

Mr. Chairman, I am pleased to appear before you and the other members of this committee to discuss the annual appropriation request of the Property Review Board. This is my first opportunity to appear at an appropriations hearing because the Board was organized late in the 1983 fiscal year. I want to express my appreciation for the committee's willingness to appropriate funds for fiscal year 1983 without a hearing.

The pending 1984 appropriation request for the Property Review Board is $415,000 or a decrease of $30,000 over the current authorized level of $445,000.

Pursuant to Executive Order 12348 the Property Review Board was created in the Executive Office of the President to monitor the review of real property holdings by all Federal agencies, to improve the management of their property and expedite the sale of unneeded properties. We have proposed the necessary legislative change so that the proceeds from property sales will be earmarked to help retire the national debt.

The Board has operated in several areas during its initial year. In accordance with our responsibilities under Executive Order 12348 we have initiated a comprehensive evaluation of all Federal land holdings, encouraged agencies to report all excess properties to the GSA and established an extensive property survey to determine which federally owned properties may be unused, underutilized or not being put to optimal use. In addition, the Board has resolved disputes which occur when GSA and the property holding agency do not agree on a disposal recommendation contained in a GSA property survey and have made recommendations to the Administrator of General Services on applications for disposals which include a public benefit discount.

The Property Review Board has also heard presentations by the Department of the Interior and the Department of Agriculture on their asset management programs for public lands and the Department of Defense on its improved property management techniques.

In addition to a continuation of last year's activities, in 1984 the Property Review Board plans to work with the executive agencies to routinely evaluate their holdings to determine how they are presently managed and utilized and to identify property which should be declared excess. We will place major emphasis on a review of current regulations and administrative procedures which create bureaucratic obstacles to timely property release.

Six Federal agencies currently are responsible for periodically reviewing adherence to conditions contained in prior conveyances of Federal real property. The procedures followed by the agenicies and the quality of the reviews varies widely. In the coming year we will be actively pursuing the implementation of uniform procedures for agencies to review adherence to the restrictions and conditions in prior discount conveyances.

The role of the Board has been to emphasize policy coordination, not implementation. Therefore, the Board staff will be kept very small. The only new employee is a full-time experienced person to help provide the Congress and State and local governments with information about surplus property in their areas.

The budget request before you is designed to allow this essential work to continue within the Executive Office of the President while upholding the President's commitment to reduce Government expenditures and improve the efficiency and effectiveness of Government operations.

Mr. Chairman, thank you for this opportunity to briefly explain the intentions of the Property Review Board to your committee. I will be happy to try and answer any questions you or other members of your committee may have at this time.

INTRODUCTION OF ASSOCIATE

Mr. MUSS. Thank you, Mr. Chairman.

I would like to take this opportunity to introduce Bruce Selfon who is Deputy Executive Director of the Board.

What I'd like to do if it's all right is to just briefly read a portion of the prepared text, and then answer any questions you might have.

Senator ABDNOR. Very fine.

Mr. MUSS. I am pleased to appear before you and this committee to discuss the annual appropriation request of the Property Review Board. This is my first opportunity to appear at an appropriations hearing because the Board was organized late in fiscal year 1983—actually, 1982, fiscal year.

I want to express my appreciation for the committee's willingness to appropriate funds for fiscal year 1983 without a hearing.

The pending 1984 appropriation request for the Property Review Board is $415,000 or a decrease of $30,000 over the current authorized level of $445,000.

The majority or all of this decrease is the result of certain of the administrative expenses of the operation of the Board staff being transferred to Mr. Rogers' Office of Administration.

In regard to what is covered by this appropriation request, these exclusively fund the operation of the staff of the Board, not the Board members.

It's a small staff made up of six permanent employees, three clerical and three supervisory. And our work is to prepare information for presentation to the Board who meet to make their decision.

I want to thank you for this opportunity to briefly explain what the Board does and what the purpose of this appropriation request is.

Senator ABDNOR. Thank you, Mr. Muss.

When you mentioned your budget is less than the year before, we realize it's because of something. You've got a very important job to do, in starting to dispose of Federal lands, which has generated a lot of interest and has caused considerable consternation throughout last year.

How are things progressing?

Mr. MUSS. Well, Mr. Chairman, the actual disposition of these surplus Federal lands are handled by various agencies, the Bureau of Land Management disposes of the properties which are subject to disposal by

FLPMA—Federal Land Policy and Management Act—and the General Services Administration disposes of the surplus Federal real property in general.

Senator ABDNOR. What part do you play in that?

Mr. MUSS. The Board is primarily a policymaking or advising entity which gives policy direction to the various agencies which hold real property; and we have coordinated the implementation of the President's property management initiative, which is directed at making sure that all Federal real property is properly and wisely used; and that which is unneeded for carrying on the functions of the agency, is disposed of.

Senator ABDNOR. You're the one who makes that determination, then?

Mr. MUSS. No, sir. The Board gives the policy advice——

Senator ABDNOR. Just the policy? But the Departments make their own——

Mr. MUSS. The departments make their own and the General Services Administration, make the ultimate decision.

Senator ABDNOR. You have no part in what's selected?

Mr. MUSS. No, we don't, Mr. Chairman. We show them how to do it. We do resolve disputes between agencies and the General Services Administration in regard to the General Services Administration's survey reports. The GSA periodically examine all the real property holdings of the agencies, and they report to those agencies the properties which they think are excess to the agencies' needs.

If an agency does not concur with the GSA recommendation, the Board is charged by the President with resolving that conflict.

Senator ABDNOR. You have to classify this property and land. Do you set the policy for classification of it?

Mr. MUSS. I'm sorry, Mr. Chairman, but I'm not clear what you mean by classify?

Senator ABDNOR. Well, what kind of land it is and—you leave that, the land that comes up for disposal?

Mr. MUSS. The land that comes up for disposal is classified by the agency itself.

Senator ABDNOR. By the agency.

Mr. MUSS. And by statute.

Senator ABDNOR. Do you oversee as your agency sets policy or do they view how they're getting along in case there's some necessity, to change the policy? And they could do that, could they?

Mr. MUSS. Yes, Mr. Chairman. The Board has received periodic reports from the agencies on what's happening; and pursuant to those reports, or from other sources, such as congressional inquiries, we do periodically change our policies or adopt new policies to be responsive to issues that we had not foreseen or had not addressed.

Senator ABDNOR. Do you track or do you have any idea how much land has been disposed of?

Mr. MUSS. Yes, sir.

So far in this fiscal year the General Services Administration has sold approximately $26 million worth of real property.

The Bureau of Land Management has sold less than 1 million dollars' worth of real property.

Senator ABDNOR. Once you set policy, does your workload slacken? I mean, getting off the ground was probably the biggest job you had to do; wasn't it?

Mr. MUSS. Well, what we're doing now, Mr. Chairman, is undergoing a systematic and thorough evaluation of all the real property owned by the Federal Government; and this review involves the Board and the Board staff in addressing specific property issues.

So our workload is reasonably even. We do also respond to congressional inquiries concerning specific properties; and those seem to happen on an unpredictable basis.

Senator ABDNOR. How many on the Board?

Mr. MUSS. The Board is made up of the President's Senior Policy Advisors, the Chairman is Edwin L. Harper, the Assistant to the President for Policy Development; and also Mr. Meese, Mr.Baker, Mr. Stockman, Mr. Feldstein, who is Chairman of the Council of Economics Advisor; Judge Clark, and Jerry Carmen, the Administrator of General Services.

Senator ABDNOR. Well, thank you very much.

Mr. MUSS. Thank you.

SUBCOMMITTEE RECESS

Senator ABDNOR. This will conclude our morning session. We are going to reconvene this afternoon at 2 p.m., right here in the same room, when we will receive testimony from public witnesses. I might say the Office of Management and Budget was also slated to appear today, but a situation has arisen and Mr. Stockman can't be with us. So we're going to have to reschedule his testimony.

So at this time we stand in recess until 2 o'clock.

[Whereupon, at 11 a.m., Wednesday, April 20, the subcommittee was recessed, to reconvene at 2 p.m., the same day.]

(AFTERNOON SESSION, 2:05 P.M., WEDNESDAY, APRIL 20, 1983)

NONDEPARTMENTAL WITNESSES

REVENUE FOREGONE POSTAL SUBSIDY

STATEMENT OF JOSEPH E. MILLER, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE COMMISSION

Senator ABDNOR. The subcommittee will come to order.

In our intended schedule that we started with this morning, we were to have OMB as our first leadoff witness this afternoon, but as we announced just before lunch and before we recessed that that had to be changed. A conflict came up and we agreed to reschedule Mr. Stockman and OMB at a later time.

I just want anyone who is anticipating sitting in on that hearing to know that we will not be taking up the OMB this afternoon.

We'll go right ahead with testimony from our public witnesses who have an interest in the subcommittee's legislation. We have a large number of witnesses who will present testimony on a wide range of subjects. For that matter we'll ask that witnesses limit their statements to 5 minutes, and I know that seems unfair, but at the same time, with the schedule we have and the time limitations, that's the only way we can go about this.

I want to assure everyone, though, that your entire statements will be made a part of the record, so don't feel that if you don't get your entire statements read—I want you to know that it will be taken and put into the record as though it had been read.

We're going to open our hearings today with testimony regarding the revenue foregone postal subsidy.

We have witnesses from a wide spectrum, and we've asked them to present their testimony separately, but to come together as a panel for questions.

We'll hear from Joseph Miller who is assistant director of the National Legislative Commission of the American Legion; Mr. Clyde E. Shorey, Jr., chairman of the National Alliance of Third-Class Nonprofit Mailers; and from the National Association of Public Television Stations, we have Dave Leonard, vice president of South Dakota Public Television network whom we know very well. We welcome Dave to the meeting. And Nina B. Link of the "Children's Television Workshop."

We'd like to ask you all to present your testimony. I see we have Roberta Van Beek here with us, too. I don't have her listed. We certainly welcome you, Roberta, to the committee.

So, at this time we'll proceed with those kinds of ground rules. No more than 5 minutes per participant, and then we'll ask questions afterward.

Mr. MILLER. My name is Joseph E. Miller, assistant director of the National Legislative Commission of the American Legion.

Mr. Chairman, we'd like to thank you for the opportunity to present our views on the revenue foregone postal subsidy appropriation for the upcoming fiscal year.

As you know, over the last 2 years, the postal subsidy appropriation has been well beneath the level envisioned by the Postal Reorganization Act of 1970, and has seriously affected all levels of communication within the Legion. This communication is, Mr. Chairman, the lifeblood of Legion sponsored community based volunteer programs.

There is only one way for a nonprofit organization such as the Legion to insure a relatively constant volunteer program participation rate, and that is through communication.

One of the consequences of increased postage cost has been a reduction in the available support for these volunteer activities. I recently received a report, and American Legion field service report which demonstrates this fact rather dramatically, and I quote from that report. "Postage cost and inflation in general were responsible for the discontinuance of the Christmas gift shop." This Christmas gift shop was in Lake City, Fla. Veterans' Administration Medical Center.

Today, Mr. Chairman, we seek this subcommittee's support in maintaining the ability of the Legion to continue its present level of community based volunteer program activity by preserving its capability to communicate regularly and frequently with its membership.

To maintain nonprofit rates at step 14 through fiscal year 1984 will require $879 million. It should be, however, pointed out, that this figure includes $161 million in reconciliation revenues for a fiscal year 1982 shortfall arising through miscalculations on the part of the U.S. Postal Service.

Even at this level, the cost-benefit ratio of the revenue foregone postal subsidy, dollar per dollar, makes it one of the soundest investments any government has made toward the health and well being of its citizens and communities.

The cost-benefit ratio of the postal subsidy should be closely examined. Such an examination would reveal that the postal subsidy represents less than two-tenths of 1 percent of all Federal expenditures.

Yet, a 1981 Gallup organization survey revealed that the estimated value of goods and services attributable to nonprofit organizations during the year was nearly $64 billion.

In 1980, another survey by a different organization, estimated the value of nonprofit services and products at $45 billion. The magnitude of this increase, $20 billion in one year, brings the cost-benefit and cost effectiveness of the postal subsidy into proper focus.

All of us want to avoid spending more money than is necessary and want to direct our available revenues to where they will do the most good.

Using available revenues to communicate with our members, and to maintain community based volunteer programs is, in our opinion, more productive than spending those revenues on increased postage cost.

Some specific examples might help to illustrate the previously mentioned points. Florida has, as a result of the reductions in postal subsidy funding, had to cut their annual contributions to All Children's Hospital in St. Petersburg by 50 percent.

Another American Legion program in Florida that has been adversely affected by the increases is one that provides direct financial assistance to destitute veterans coming into the State, but funds for this program were expended after only 3 months of the current fiscal year, and due to increased postal costs, the Florida Legion has been unable to increase the funds available to needy veterans.

In order to preserve program funds, the Legion newspaper in Florida was cut back from 12 to 7 issues annually.

Mr. Chairman, the problems in Florida are not isolated incidents. They are representative of the choices which must be made in order to solve the funding dilemma facing every Legion department and post as a result of the reductions which have been made in the revenue foregone postal subsidy appropriations.

Legionnaires recognize, however, that whether the final outcome of their decisions are reduced program funds or reduced information, it is the community based volunteer program beneficiaries who will ultimately suffer.

It is a simple fact that people need to know where and when they are needed in order to respond. If citizens don't know where help is needed, in whatever form, they can't be expected to lend their physical and financial support.

Increased postage costs make it continually more difficult to carry out the communication necessary to keep the community based volunteer programs active.

Therefore, Mr. Chairman, we urge this subcommittee to appropriate the full $879 million for the revenue foregone postal subsidy for the 1984 fiscal year.

PREPARED STATEMENT

Mr. Chairman, with these remarks we conclude our testimony and make ourself available for your questions.

Senator ABDNOR. Well, thank you, Mr. Miller. We'll finish with the panel and then ask some questions.

[The statement follows:]

Statement of Joseph E. Miller, Jr.

Mr. Chairman, The American Legion would like to thank you for the opportunity to present its views on the Revenue Foregone postal subsidy appropriation for the upcoming fiscal year.

Over the last two years, the postal subsidy appropriation has been well beneath the level envisioned in the Postal Reorganization Act of 1970, P.L. 91-375, as amended by P.L. 93-328, and has seriously affected all levels of communication within the Legion. This communication is, Mr. Chairman, the lifeblood of Legion sponsored community based volunteer programs. There is only one way for non-profit organizations, such as the Legion, to insure a relatively constant volunteer program participation rate, and that is through communication. Disruption in the communications chain, however slight, will eventually filter down to the community program level. Of course, when volunteer programs suffer a decrease in funding or in personnel strength, the end result is that someone will not gain the assistance they need. One of the consequences of increased postage costs has·been a reduction in the available support for these volunteer activities.

Today, Mr. Chairman, we seek this Subcommittees' support in maintaining the ability of the Legion to continue its present level of community based volunteer program activity by preserving its capability to communicate regularly and frequently with its membership.

Presently, non-profits are at step 14 of the 16 year phase-out schedule. To maintain non-profit rates at step 14 through FY 84 will require $879 million. It should, however, be pointed out that this figure includes $161 million in reconciliation revenues for an FY 82 shortfall arising through miscalculations on the part of the U.S. Postal Service (USPS).

Mr. Chairman, non-profits are not asking for just any funding level for the postal subsidy . Indeed the non-profit community of which The American Legion is a significant representative, has recognized the deficit burden facing the Congress and its impact on the national economy. This recognition has led non-profits to ask Congress for postage rate stability instead of a postal rate rollback, and we feel that this is a reasonable and responsible request.

Even at this level the cost-benefit ratio of the Revenue Foregone Postal Subsidy, dollar for dollar, makes it one of the soundest investments any government has made toward the health and wellbeing of its citizens and communities. The cost benefit ratio of the postal subsidy should be closely examined.

Such an examination would reveal that the postal subsidy represents less than 2/10ths of 1 percent of all Federal expenditures. Yet a 1981 Gallup Organization survey revealed that the estimated value of goods and services attributable to non-profit organizations during the year was nearly $64 billion. In 1980 another survey, by a different organization, estimated the value of non-profit services and products at $45 billion. The magnitude of this increase, $20 billion in one year, brings the cost-benefit and cost-effectiveness of the postal subsidy into proper focus.

Clearly, Mr. Chairman, non-profit organizations, including the Legion, have responded to the President's call for increased assistance to Americans in need from the private sector. All of us want to avoid spending more money than is necessary and want to direct our available revenues to where they will do the most good. We feel that using available revenues to communicate with our members and to maintain community based volunteer programs is more productive than spending those revenues on increased postage costs.

Some specific examples might help to illustrate the previously mentioned points. Florida, with more than 65,000 Legionnaires has, as a result of the reductions in postal subsidy funding stemming from the 1981 Congressional budget activity, had to cut their annual contribution to All Childrens Hospital, in St. Petersburg, by 50 percent.

Another American Legion program, in Florida, that has been adversly affected by the increases in non-profit postage rates is one that provides direct financial assistance to destitute veterans comming into the state. The funds for this program were expended after only three months of the current fiscal year and due to increased postal costs the Florida Legion has been unable to increase the funds available to needy veterans. In addition, in order to preserve program funds, the Legion newspaper in Florida was cut back from twelve to seven issues annually.

Mr. Chairman, the problems in Florida are not isolated incidents, they are representative of the choices which must be made in order to solve the funding dilemma facing every Legion Department (state organization) and Post as a result of the reductions which have been made in the Revenue Foregone postal subsidy appropriations. Legionnaires recognize, however, that whether the final outcomes of their decisions are reduced program funds or reduced information, it is the community based volunteer program beneficiaries who will ultimately suffer.

It is a simple fact that people need to know where and when they are needed in order to respond. If citizens don't know where help is needed, in whatever form, they can't be expected to lend their physical and financial support. Increased postage costs make it continually more difficult to carry on the communication necessary to keep community based volunteer programs active.

Therefore, Mr. Chairman, we urge this Subcommittee to appropriate the full $879 million for the Revenue Foregone postal subsidy for the 1984 fiscal year.

Senator ABDNOR. Mr. Shorey with the Alliance of Third-Class Nonprofit Mailers is our next witness.

STATEMENT OF CLYDE E. SHOREY, JR., CHAIRMAN, ALLIANCE OF THIRD-CLASS NONPROFIT MAILERS

Mr. SHOREY. Thank you, Mr. Chairman. The name is Clyde Shorey, and I'm vice president for public affairs of the March of Dimes Birth Defects Foundation, but I'm appearing here today as chairman of the Alliance of Third-Class Nonprofit Mailers.

I'm very pleased to be accompanied by Roberta Van Beek of the National Easter Seal Society who is one of our most active members.

The Alliance urges this committee to set the appropriation for revenue foregone for the Postal Service again at $879 million as mentioned by the previous witness.

This figure will mean stability in nonprofit postal rates. In appearing on behalf of the Alliance I represent about 40 nonprofit organizations and associations which share in the use of mail for fund-raising purposes and the distribution of educational and other materials at reduced postage rates.

Examples of Alliance membership besides the March of Dimes and the Easter Seal Society are the American Association of Retired Persons, the American Cancer Society, American Lung Association, American Association for the Advancement of Science, American National Red Cross, Consumers' Union, National Wildlife Federation, National Audubon Society, National Catholic Development Conference and the U.S. Catholic Conference of Bishops.

Each of our members is heavily reliant on third-class nonprofit mail, both as a means of solicitation of private contributions, and to facilitate their educational and informational work.

As you know, the nonprofit postal rates are currently at the 14th phasing step as a result of the appropriation for fiscal year 1983.

For third-class nonprofit mailers, this step results in a rate of 5.2 cents per piece. I believe it is important for the committee to know that under permanent law the Postal Reorganization Act of 1970, the nonprofit rate should now be at the 11th phasing step with a third-class rate of 4.2 cents.

For fiscal year 1984, this would have moved to the 12th step and a rate of [illegible].5 cents.

For fiscal year 1984, permanent law would require an appropriation of $1.01 billion. Therefore the appropriation which we are proposing of $879 million to hold nonprofit rates stable, is a reduction of over $130 million from the amount originally established by Congress.

This is the additional amount, this $130 million is the additional amount that nonprofit organizations will be required to pay even if the appropriation that we are requesting here is adopted.

At the figure that we are proposing the nonprofit community has already made a substantial sacrifice to help meet the Nation's budgetary problems.

I would also like briefly to review what has happened to our rates over the last 16 months. Using third-class nonprofit rates as an example, in January 1982, our rates increased from 3.8 cents to the 16th step, or 5.9 cents per piece. This was an increased in cost to the third-class nonprofit mailers of in excess of $160 million on an annual basis.

Last July, this committee recommended, and Congress added additional funds to the urgent supplemental appropriation, to reduce rates to the 13th step or 4.9 cents. In January of this year, following the adoption of the continuing resolution, which again followed the recommendation of this committee, the rate was stabilized at the 14th step or 5.2 cents per piece.

Thus, in the last 16 months, we have gone from 3.8 cents to 5.9 cents, to 49 cents and finally to 5.2 cents. Every 1 cent increased cost to third-class nonprofit mailers cost the third-class nonprofit mailers over $80 million per year.

In order for Congress to stay with its intent of stabilizing nonprofit postal rates, it must appropriate $879 million. This figure would allow nonprofit postal rates to stay at their current level of step 14, or 5.2 cents per piece.

Anything less that $879 million would increase nonprofit postal rates and thus jeopardize their ability to continue providing the same level of service that they currently provide.

It is important to remember that the line item in the Federal budget may be called revenue foregone, but the resulting cuts in the line item of the budgets of thousands of nonprofit organizations could be called programs foregone.

For the American Lung Association it is antismoking campaigns and emphysema research foregone. For the National Wildlife Federation it is environmental education and research foregone. For the Salvation Army it is alcoholism treatment and disaster relief foregone.

For Catholic Charities, it is food for the needy and family counseling foregone. These programs, not just a few tenths of a cent for envelope mailed are the reality of the matter which is now in your hands.

Many of the Nation's third-class nonprofit mailers, the Nation's independent organizations including charitable organizations, educational institutions, hospitals, labor unions and others wish to decrease their dependence on the Federal Government by increasing their reliance on private contributions.

It makes no sense for the U.S. Congress to decrease appropriations in the human services area and then expect nonprofit organizations to pick up the slack, if the Congress is simultaneously threatening the financial lifeline of these organizations through a hefty increase in postal rates for direct mail fundraising.

For example, the Salvation Army has experienced a roughly 30-percent increase over 1981 in requests for assistance from destitute families. The increase in demand for its day-care facilities has also been dramatic, all this at a time when its ability to raise funds to carry out these programs is being diminished.

And my full statement includes a number of other examples of this same type of dilemma.

Thus, if the Congress wishes to make the independent sector better able to obtain private contributions the revenue foregone appropriations must be maintained. If the Congress wishes to cut back Federal spending in the areas in which our organizations operate, it must continue full funding of the revenue foregone appropriation.

If the Congress wishes to maintain continuity in nonprofit postal rates, it must approve full fiscal year 1984 funding of $879 million for the revenue foregone appropriation.

Incidentally, this is the figure which has been adopted by the House budget resolution.

That concludes my statement, Mr. Chairman.

PREPARED STATEMENT

Senator ABDNOR. Thank you. We will place your statement in the record.

[The statement follows:]

STATEMENT OF CLYDE E. SHOREY, JR.

This statement is submitted on behalf of the Alliance of Third-Class Nonprofit Mailers. The Alliance is an affiliation of nonprofit organizations and associations which share in the use of the mail for fund-raising, educational and other materials at reduced postage rates. Among its members are the American Arts Alliance, the American Association of Retired Persons, the American Cancer Society, the American Lung Association, the American Heart Association, the March of Dimes Birth Defects Foundation, CARE, the American Assocation for the Advancment of Science, the Little City Foundation, the Arthritis Foundation, the Muscular Dystrophy Association, Inc., the American National Red Cross, the Consumers Union of the United States, Inc., the National Association for the Advancement of Retired People, the Holy Land Christian Mission, Intl., the National Audubon Society, the National Catholic Development Conference, the National Easter Seal Society, the National Health Council, the National Society to Prevent Blindness, the National Wildlife Federation, Save the Children, St. Jude Children's Research Hospital and the Salvation Army. Each of these organizations is heavily reliant on third-class nonprofit mail, both as a means for the solicitation of private contributions and to facilitate their educational and informational work.

As the members of the Committee are well aware, on January 10, 1982 third-class nonprofit postal rates increased substantially, when the rate shot up from 3.8 cents a piece for standard presorted mail to 5.9 cents a piece. The percentage increases for the three levels of presorted third-class mail were staggering. Standard presort ("all other") mail increased by 55 percent; five-digit presort mail jumped by 72 percent; and carrier-route mail skyrocketed up an unbelievable 110 percent! That was a more than doubling of the presort subclass which is most heavily utilized by many third-class nonprofit mailers.

Coming on the heels of this January 10 postage increase was the Administration's budget request for FY 83 which sought a $500,000,000 revenue foregone appropriation. This was almost 20 percent below the $615,615,000 which would have been needed in the next fiscal year to maintain the then existing reduced rates for preferred rate mailers. If adopted, the Administration budget request for FY 83 would have resulted in an addicional increase of between 0.5 and 1.2 cent rates as of October 1, 1982 for all nonprofit mailers.

Congress, however, did not accept the Administration's proposal. In two separate actions, Congress clearly demonstrated its intent to stabilize non-profit postal rates. In the first action, in July, 1982, Congress, over Administration opposition, rolled rates back from Step 16 (5.9 cents per piece) to Step 13 (4.9 cents per piece) through additional funding of $42 Million for revenue foregone in the FY 82 Urgent Supplemental Appropriation. Then, in order to hold rates at Step 14 (5.2 cents per piece) during FY 83, Congress set the funding at $789 Million in the 1983 Continuing Resolution. This was substantially higher than the amount authorized by the 1981 Reconciliation Act or the amount requested by the Administration in its 1983 proposed budget.

Now the Administration is back at the same old game. This year, instead of $500 Million, the Administration has requested $400 Million for revenue foregone. This appropriation figure would have the effect of increasing rates to 8.9 cents per piece, way beyond the full attributable cost of 5.9 cents per piece, or Step 16. In fact, an appropriation of $400 Million would increase nonprofit postal rates for carrier-route presort by 100 percent from 3.3 cents per piece to 6.6 cents per piece.

An increase of this magnitude would have a devastating impact on nonprofit organizations and associations. Postage costs for the National Catholic Development Conference would increase by $23 Million and for the March of Dimes and the American Lung Association by over

$3 Million each. All third-class nonprofit mailers would pay over $270 Million in increased postage costs -- at the same time that they are being asked to provide increased levels of service.

In order for Congress to stay with its intent of stabilizing nonprofit postal rates, it must appropriate $879 Million. This figure would allow nonprofit postal rates to stay at their current level of Step 14 or 5.2 cents per piece. Anything less than $879 Million would increase nonprofit postal rates and thus jeopardize their ability to continue providing the same level of service that they currently provide.

It is important to remember that the line item in the Federal budget may be called "revenue foregone" but the resulting cuts in the line items of the budgets of thousands of nonprofit organizations could be called "programs foregone." For the American Lung Association it is antismoking campaigns and emphyzema research foregone; for National Wildlife Federation it is environmental education and research foregone; for the Salvation Army it is alcoholism treatment and disaster relief foregone; for Catholic Charities it is food for the needy and family counseling foregone. These programs, not just a few tenths of a cent per envelope mailed, are the reality of the matter which is now in your hands.

Please remember that our organizations representing a cross section of nonprofit America are not just another group of special pleaders. We are not seeking the financial support of the Congress to deliver our programs. Rather we are seeking to deliver services which are not funded by the government. We believe that a strong case can be made for the preservation of the revenue foregone subsidy which would be persuasive to even the most ardent budget cutter.

The March of Dimes, for example, receives no federal funds and most of the other members of the Alliance are not substantially reliant upon such funds. The vast percentage of our income is raised in the private sector from individuals, corporations, foundations, and other sources. If we are to rely upon private sources of funding, the art of fund raising becomes important.

One of the most efficient and effective fund-raising tools currently available to the nonprofit community is direct mail solicitation. A sudden and dramatic increse in third-class nonprofit postal rates, the rate at which these fundraising solicitations are mailed, throws into chaos the fundraising programs of literally tens of thousands of nonprofit organizations.

When choosing among alternative types of fundraising devices, cost is the critical point of comparison. Programs are put into effect with substantial lead time. In essence, tens of thousands of nonprofit organizations have relied upon the oft-repeated intent of Congress to maintain revenue foregone appropriations and planned their fundraising campaigns based upon this understanding. This understanding was not unjustly acquired. In the years since the revenue foregone appropriation was originated, the Congress has chosen in every single fiscal year to appropriate the full amount requested by the Postal Service for nonprofit organizations until FY 82. Now in FY 84 it appears possible that even the continuing appropriation could be in jeopardy.

Many of the nation's third-class nonprofit mailers, the nation's independent organizations including charitable organizations, educational institutions, hospitals, labor unions, and others wish to decrease their dependence on the federal government by increasing their reliance on private contributions. It makes no sense for the United States Congress to decrease appropriations in the human services area and then expect nonprofit organizations to "pick up the slack" if the Congress is simultaneously threatening the financial lifeline of these organizations through a hefty increase in postal rates for direct mail fundraising. For example, the Salvation Army has experienced a roughly 30 percent increase over 1981 in requests for assistance from destitute families. The increase in demand for its day care facilities have also been dramatic. All this at a time when its ability to raise funds to carry out these programs is being diminished.

Over the years, our organizations have become increasingly sophisticated in direct mail techniques. We have been able to perfect our skills of targeting and procurement to maximize our rate of return. However, the one expense over which we have no control has been postal rates. While the costs of envelopes, printing, letter shop charges, etc. are stabilized, postal rates continue inexorably upwards. Adjustment to this on a gradual basis is difficult enough, but a sudden jump in these rates would place a heavy burden on these organizations, which some could not sustain.

Any reduction in the revenue foregone appropriation and corresponding increase in postal rates translates into a direct reduction in services by many of the affiliate members of the Alliance. Take, for example, the Easter Seal Society for Crippled Children and Adults of Virginia. The Society spends about $950,000 a year on direct services including speech therapy, infant early intervention, speech and language screening and evaluation, audiological screening and resident camping. The Society also purchases for and loans equipment to people with disabilities including wheelchairs, braces and orthotic and prosthetic devices. Virginia Easter Seals provides services to people of all ages who frequently have nowhere else to turn.

The Director of the Virginia Easter Seal Society has told us that 60% of the organization's program costs are funded through contributions raised through the mail. In other words, this single agency raises approximately $570,000 through mail soliciatations each year. According to the National Easter Seal Society the Virginia agency's reliance on mail contributions is not atypical relative to other Easter Seal societies across the country. These societies have made it clear that any further postal rate increases will seriously impede their ability to prospect for new donors and continue their fundraising efforts through mail solicitations. Postal rate increases will mean that the child who needs his first wheelchair, the stroke victim who needs occupational therapy, and the retarded adolescent who needs educational services will be denied those services.

In the case of the Holy Land Christian Mission International, a relief organization giving food, medicine and clothing to the poor and homeless of the world, fluctuating postage rates can literally take the food out of the mouths of starving people. A stable rate of 5.2 cents will mean a savings of $42,000 for this organization this year alone. In basic terms that means an additional 12,500 people could be fed for nearly a month. And if that money were applied to another mailing, it could generate enough support to feed more than 23,00 people. That would be the equivalent of feeding every man, woman and child in Fairfax, Virginia for nearly a month.

In a world where 17 million children under the age of five died of starvation last year, that may not sound like a major impact, but when multiplied by the people touched by other relief organizations similar to Holy Land Christian Mission you can see that a small increase in postage rates can affect families around the world.

Instability in rates can be just as devastating. Without postal rate stability, the Holy Land Christian Mission cannot take advantage of long term agreements that would provide large quantities of food at a lower cost. They must remain flexible in order to absorb a possible postal rate increase.

As they told the Alliance, they can control their printing costs, they can mail fewer pieces or lower the quality of their packages, but they have no alternative to the mails. If an increase is mandated, they have no choice but to pay it.

The American Arts Alliance reports that nonprofit arts groups would also suffer from an increase in postal rates. The Arts Alliance sent out a questionnaire to nonprofit arts groups asking them to assess the impact on their organizations of the increase in postal rates. Both the Cincinnati Playhouse in the Park and the Berkeley Repertory Theater describe situations in which artistic growth would be greatly hampered. For the 'Playhouse', a third-class nonprofit postal increase would initially mean a loss of subscribers and ultimately lead to a theater company that has lost "the ability to take risks." Similarly, the Berkeley Repertory Theater reports that the effect would be one in which "most new programming is curtailed."

The long term effects of a postal increase are what cause the greatest concern for the Cincinnati Opera Association and the Baltimore Opera Company, Inc. While the initial effects of the increase almost uniformly lead to a drop in sales and fund raising monies raised, the Cincinnati Opera foresees that the drop in sales "will have, in time, an indirect effect on numbers and quality of performances." The Baltimore Opera echoes this fear of a potential drop in quality. Likening the effects of increased rates to a rolling, ever-increasing snowball they predict that the expected "lessening ot general awareness and support will result ultimately in a reduction of the budget and accompanying cuts in productive quality and scheduling."

Long term effects are also a prime concern for the dance companies. The San Francisco Ballet Association states that the postal increase would "hamper audience development thus having a greater long term effect than a short term one." Initially it would cause financial problems, which would result in a lessening of outreach programs to the community and training of young dancers.

The New York Philharmonic predicts that the effects of a postal rate increase might be to place the ticket price beyond the reach of the general public. In order to meet the higher costs of third-class mailing, the symphony would have to "intensify fundraising efforts and raise ticket prices to survive, thus making programs less affordable for the general public."

The bleakest picture is painted by the Living Stage Theater Company located in Washington, D.C. Viewing the effects of a postal increase conjointly with the effects of federal funding cuts, the conclusion drawn is that "an increase in postal rates could jeopardize our very existence."

A major problem for nonprofit organizations facing increases in postal rates is where to cut back in their budgets in order to compensate for higher postal costs. Many have chosen to maintain their current programs and services but to cut back on their level of "prospecting" mail. This means that while programs are not currently hurt, eventually they will be because it is the donors gained from prospecting mail who will provide the income in the future to support those programs. For example the March of Dimes this year reduced its level of prospecting mail from 56 million pieces to 46 million. Usually there is a one percent return on prospecting mail with an average contribution of $5.25. A reduction of ten million pieces, due to increased postal costs, will cost the March of Dimes $525,000.00 in potential contributions this year alone. The loss is even greater when you consider that of the one percent that gives the first year, one third of that group will repeat the following year with an average contribution of $8.00. This would add up to a loss of $264,000 in the second year and additional amounts thereafter.

Thus, if the Congress wishes to make the independent sector better able to obtain private contributions, the revenue foregone appropriations must be maintained. If the Congress wishes to cut back federal spending in the areas in which our organizations operate, it must continue full funding of the revenue foregone appropriation. If the Congress wishes to maintain continuity of funding and live up to the agreement with nonprofit mailers to have them pay only their attributable costs, it must approve full FY 84 funding of $879 million for the revenue foregone appropriation.

Senator ABDNOR. Mr. Leonard of the National Association of Public Television Stations.

STATEMENT OF DAVID LEONARD, ASSOCIATE EXECUTIVE DIRECTOR OF SOUTH DAKOTA PUBLIC BROADCASTING

Mr. LEONARD. Thank you, Mr. Chairman.

I am Dave Leonard, and I'm associate executive director of South Dakota Public Broadcasting, and public broadcasting is among the enterprises in this country that depends rather heavily on the kinds of postal service that we're talking about. I'm going to talk primarily about one small example about which you, sir, know, being from South Dakota as I am.

But this kind of pattern is duplicated around the country and will affect a great many stations and public broadcasting in general.

We do have an eight station television network, of course, in South Dakota that covers the entire State. We now only have three radio stations, but we have three more under development in order to get public radio across the whole State, and we also have a friends' organization, some 16,000 families and individuals who send in their money, contributions, to help support the enterprise.

As you know, we're a rural State and have a number of unique problems, and at the same time offer some unique programs to the roughly 700,000 people that are scattered over our 77,000 square miles.

There are a lot of people who live in our State who depend on public television for a great deal of their education and information, entertainment. They don't have multiple channel cable systems where they live.

Some of them receive only our signal. Others receive one or two commercial stations as well. But it's important for the people of South Dakota to have this service available, and we have to support a rather expensive hardware system to get this signal to them with the eight transmitters. In fact, we have one transmitter that reaches only 8,300 homes out there. By comparison the entire city of Rochester, N.Y., or whatever could be covered with a single transmitter.

So we have a lot of money tied up in getting the signal out to the people in our State which leaves with less money for programing and proportion in our budget than perhaps many others have.

And any budget cuts or large increases in the expenses that we have to make are obviously going to start cutting right into the heart of what we're all about which is the programing, and we do use the second-, third-, and fourth-class nonprofit mail service to send out our monthly program guides, and to also solicit new members for our friends' organization.

This year we figure we'll be spending about $26,000 for these purposes. It may not sound like a lot of money when you are talking millions and billions, but to us it is. And that is up some $8,000 from the year before or the 2 years before due to the increases that we've already seen in the postage costs. We've managed to hold it down to that level by cutting out some mailings, but there are no more mailings for us to cut out. And as I understand the administration's proposed additional increases of up to 70 percent, that would add another $18,000 to our postage bill in South Dakota, just for public broadcasting.

And, of course, this comes at a time when the Federal funds and the State funds for public broadcasting have also been going down. In the last 2 years, we've lost almost $250,000 of grant money from the Corporation for Public Broadcasting due to the cuts in the Federal funding. The State has had to cut some $300,000 from our budget due to the state of the economy, and we've worked, we think, pretty hard to try to offset these. We've managed to increase, as a matter of fact, double our private fundraising in the last 2 years, some 230,000 dollars' worth since 1982. We've cut our radio staff in half, cut some people off the television staff, some 10 percent cuts there. We scrapped plans to try to start some new programs that we had in mind. We're not doing as many programs out of the studio as we would like to. We've pulled more of them back to the studio because it's cheaper there.

In other words, we've tightened the belt, and that's what I think everyone's having to do now, both public and private enterprise. But any further cuts, or big increases in expenses we feel are just going to have to cut into the programing, into the real heart, flesh of what we do.

So we face some real problems in deciding if such things happen what are we going to do. I might speak just for a moment about what $18,000 can buy in terms of programing in South Dakota. For instance, it can pay for broadcasting 2 hours of programing on a Sunday morning for the full year. It will pay the entire cost for half a year's worth of "Sesame Street" programs, or the total cost of "Mr. Rogers' Neighborhood" and "Electric Company" for a year on our network. Pay for "Wall Street Week" and "Nightly Business Report" for a year. Pay for one-third of the cost of the "McNeil-Lehrer Report," or two-thirds of the cost of the "Frontline" documentary series. The same $18,000 in terms of our local production represents about 25 percent of our out of pocket cost for local program production, and these are the costs that we run into when we cover the legislature on our State House series, our hour long weekly call in program, the "Conference Call" program. The "Midwest Market Analysis," that looks at the livestock and grain marketing information each week. The "All-State High School Chorus and Orchestra" that we broadcast each year, or any of the other 270 hours of local programs that we produce.

To lose 25 percent of the out of pocket budget for that would be a severe blow.

We think we have a good program service in the State. We think the people appreciate it. There are a lot of additional services that we've heard the people would like to have, but for now we're putting those on hold. We know that the times aren't right to be expanding, but we would like to do everything we can to maintain the program service we have, and try to not have to cut programing.

That's where we are at this point in time, as we see it, that any large cuts, any big increases in our expenses are going to mean cuts in programing. We don't see any other choice, and, quite frankly, the postage increase that we're talking about here would be one of those increases that would hurt our programing efforts quite severely.

Thank you.

Senator ABDNOR. Our last witness is Children's Television Workshop, and Nina Link.

STATEMENT OF NINA B. LINK, OF CHILDREN'S TELEVISION WORKSHOP

Ms. LINK. Thank you, Mr. Chairman.

My name is Nina Link of Children's Television Workshop, a nonprofit organization in New York City. I'm the publisher of the periodicals group, and I'm here to testify in opposition to any further cuts in the revenue foregone to nonprofit mailers, and to urge you to hold to the step 14 levels.

We publish three children's magazines, Sesame Street magazine, the Electric Company magazine, and 3-2-1 Contact magazine.

These magazines are based on our same television programs which are broadcast over 260 public television stations.

These magazines were developed to support and reinforce the educational goals of our television shows. Sesame Street magazine is for children aged 2 to 6; it's our preschool magazine, and it teaches prescience, premath, prereading, and helps the child to prepare for the school experience.

Sesame Street has 875,000 subscribers. Electric Company magazine is our publication for children aged 6 to 10 ,and it was developed to help motivate children to read. And we have approximately 300,000 subscribers for that publication.

3-2-1 Contact magazine is our science magazine for children aged 8 to 14, and it deals with the world of science and helps prepare children for the future.

Our three publications have subscription level of 1,450,000 magazines going into the home every month, and with a pass-along factor, 3½ million children are exposed to our publications on a regular basis.

Our magazines have no advertising. Our primary source of revenue is subscriptions. Our magazines receive no Government or corporate funding. Any increase in the postage costs substantially affects our business. We have no choice but to raise our subscription rates, and we are very reluctant to do this. Each time we've raised the rates, it decreases the number of subscribers that we have.

Over the past 2 years we have steadily cut our costs and feel our publications are now being prepared at the lowest cost feasible.

We appeal to you, the Senate, to continue Federal funding for revenue foregone for nonprofit mailers at the highest level feasible.

To give you an example of the impact on us of the postal increases, for our fiscal year 1983, which runs from July 1, 1982, through June 1983, we are projecting our postal costs at step 14 will be approximately $1,536,000.

If we remain on the phase schedule, our postage costs at step 11 would have been $1,250,000. In February 1982, we made a major decision. We were forced to give up second-class mail delivery of our magazines, and switch to third-class delivery to keep our costs as low as possible.

The administration has proposed only $400 million in funding for fiscal year 1984, resulting in a 71.2-percent increase for third-class nonprofit mailers. This increase would bring the postal costs for our three publications to $2,630,000.

How will we ever make up for the loss of $1,093,000, the difference between our present step 14 level and the $400 million appropriation level.

Our publications at Children's Television Workshop have two major responsibilities. One is to provide educational publications based on the same goals as our television shows. The second is to attempt to contribute revenue to our children's program television production costs.

Our TV productions have substantially foregone Federal support. "Sesame Street" and "Electric Company" no longer receive Federal funds, and have not received them in a number of years. "3–2–1 Contact" programs are receiving Federal support for new program productions costs.

Children's Television Workshop has wanted to become less dependent on Federal funding. Our periodicals group is one source of helping the workshop become more independent. Over the past 3 years, our publications have contributed between $900,000 and $1,100,000 to support our television production.

When I testified before this committee last year, I expressed concern that two of our publications were in jeopardy, Electric Company magazine, and the Sesame Street Parents' Newsletter. It is with deep regret that I inform you we have had to cease publication of the Sesame Street Parents' Newsletter in March 1983. Rising postal costs this past year and the proposed funding level of fiscal year 1984 revenue foregone subsidy have contributed significantly to our decision to close down the newsletter after only 2 years of publishing. Our Electric Company magazine is still hovering so close to break even that additional postal costs might force us to consider whether to continue its publication.

We are presently planning the launch of a new children's magazine in the area of computers, and new technology. Our research indicates the strong need for a publication in this area. Further postal increases will significantly impact this project.

We are aware that these are difficult times, and no part of the budget is immune. The cuts already made in postal subsidies have set us back a long step in terms of our business and future growth. One more step and we may not be able to recover.

Thank you.

PREPARED STATEMENT

Senator Abdnor. Thank you. We will insert your statement in the record.

[The statement follows:]

STATEMENT OF NINA B. LINK

My name is Nina Link of the Children's Television Workshop, a nonprofit organization located in New York City. I am here to testify in opposition to any further cuts in revenue foregone for nonprofit mail services and to urge you to hold rates at the current step 14 levels.

I am Publisher of the Periodicals Group, which creates and distributes magazines in conjunction with each of the children's television programs produced by the Workshop: Sesame Street, The Electric Company, 3-2-1 Contact. These TV programs are seen daily on 260 Public TV stations throughout the nation. Their viewership of children, parents and teachers totals over ten million different persons every week.

We began publishing magazines for each of these nation-wide programs to extend and reinforce the curriculum goals, to encourage reading, and to present interactive materials which allow a child to proceed at his or her own pace. The three essentially monthly magazines Sesame Street, The Electric Company and 3-2-1 Contact are designed with the same care and research as our TV programs. They bring to homes and classrooms educational materials not easily available elsewhere.

Sesame Street Magazine is for children aged 2 to 6 and provides prereading, premath, prescience, socialization and affective curricula to help children prepare for school and begin to explore the world around them. The Electric Company Magazine reaches children from 6 to 10 and provides stories, puzzles, games and poems to motivate children to read and to reinforce many of the skills they are learning at school.

3-2-1 Contact Magazine was created for children aged 8 to 14 to expose them to the exciting world of science, prepare them for the ever changing world around them and to involve them in activities which teach and reinforce science principles appropriate to their age.

Sesame Street Magazine currently has over 875,000 subscribers monthly. The Electric Company and 3-2-1 Contact reach approximately 300,000 subscribers each with every issue. Over 1,450,000 subscribers receive each issue of our magazines and with a pass-along factor more than 3-1/2 million children are exposed to our educational publications every month. From the comments we receive in the mail from our subscribers, we believe we are performing a very important service in the areas of prereading, reading, and science.

These magazines have no advertising. Our primary source of revenue, therefore, is from subscriptions. The magazines received no government or corporate funding. When the postage costs are raised as substantially as they have been this year, we must consider substantially increasing the price to our subscribers. At the present time, our subscription rates are competitive with other children's magazines. By substantially increasing our rate to try to make up for the loss of revenue brought about by the nonprofit postal increases, we would go beyond an acceptable pricing point. The result would be a sharp decrease in the number of subscribers, less revenue and less service to our audience.

Over the past two years, we have steadily cut our costs and we feel our publications are now being prepared at the lowest cost feasible. Further cuts would simply reduce the educational effectiveness of the publications.

Therefore, we appeal to you -- The Senate -- to continue federal funding for "revenue foregone" for nonprofit mailers at the highest level feasible, and certainly not to reduce it further. For fiscal year 1983 (July 1982 through June 1983) we are projecting that our postal costs at Step 14 will be approximately $1,536,000. If we had remained on the phased schedule, our postage costs at Step 11 would have been $1,250,000. In February of 1982 we were forced to give up 2nd Class mail delivery of our magazines in favor of 3rd Class delivery to keep our costs as low as possible. The Administration has proposed only $400,000,000 in funding for the fiscal year 1984 revenue foregone subsidy, resulting in a 71.2% increase for 3rd Class nonprofit mailers. This increase would bring the postal costs for our three publication to over $2,630,000.

How will we make up for the loss of $1,093,630, the difference between Step 14, 3rd Class and the $400,000,000 appropriation level? Our publications have 2 major responsibilities at Children's Television Workshop: to provide educational publications for the public based on the same curriculum goals as our TV shows, and to attempt to contribute revenue to our children's TV program production costs. Our TV productions have substantially foregone federal support. Neither Sesame Street nor Electric Company TV shows receive federal funds any longer, although both had received such in the past. 3-2-1 Contact programs are receiving federal support for new program production costs. CTW wanted to become less dependent on federal funding and the growth of our Periodicals Group has been one source of helping the Workshop become more independent. Over the last 3 years, we were able to contribute between $900,000 and $1,100,000 in net revenues each year to help support Sesame Street. We are proud of this record and of those subscribers who are able to help in this way, but if our costs go higher, and our net return to our productions are thus reduced, not only will our publications suffer, but our programs will be severely hurt as well.

Last year when I testified before this committee I expressed concern that two of our publications, Electric Company Magazine and Sesame Street Parents' Newsletter, were in immediate jeopardy because of increased postal costs. It is with deep regret that I inform you that we had to cease publication of the Sesame Street Parents' Newsletter in March 1983. The rising postal costs this past year and proposed funding for the fiscal year 1984 revenue foregone subsidy contributed significantly to our decision to close down the publication after only two years of publishing. The Electric Company Magazine is still hovering so close to break even that additional postal costs might force us to consider whether to continue its publication.

We are presently planning the launch of a new children's magazine in the area of computers and technology. Our research indicates a strong need for a publication in this area. Further postal increases will significantly impact this project.

We are aware these are difficult economic times and no area of the budget is immune. The cuts already made in postal subsidies have set us back a long step in terms of our existing business and future growth. One more step and we may not be able to recover.

Senator ABDNOR. I appreciate the testimony of all the participants, and I want you to know that we are very much aware of the problem, and we dislike it as much as you do. And I think we've been in the forefront with it.

I'm the first to admit to you that the Government did make an agreement with you, and I think we should keep it in regard to the phasing-in agreement that was made before I was here. I think the stabilization of rates is important. I also know that we in Government expect calling more and more on your groups to help pick up the slack.

Now, having said all that, it's just the problem of finding the money. I'm on several other subcommittees, and you start scrounging around, I can use that word, and looking for extra money. We did this last year till we scraped all the other agencies and groups we had under us.

This is our budget. I just want to tell you what we're up against, so we all understand what we're talking about here. We've got over 67 different items that we appropriate to, and they're not bad programs, like many of the parts of the budget. When we start making cuts as we do like you, it cuts right into the very heart of what you're doing, and we cut into the agencies that come before us. It's people. We've already got them down in numbers. We've had some of our people find us some money to put back in the supplemental so they can keep their people on board. And we've gone through this for years and we've cut back in a lot of places.

It depends, of course, on what the Budget Committee does with us. They're along ways from coming to any kind of an agreement, but we'll just have to see.

We don't have all that much money, and we have a total of less than $12 billion. Civil service retirement, which you do not dare touch—if you had yours written up like they did you'd have it made—you have almost $4 billion, and I don't mean to say anything against civil service, but you just don't cut civil service unless you change some laws. You've got health benefits we're committed to of $1.5 billion, and there's a little thing called, well, the next biggest item, your revenue foregone is $789 million.

What I'm trying to say is even though we're sympathetic I can't make you any guarantees today that all this is going to be the way we'd like to have it. We could probably talk more about it if we knew exactly what the Budget Committee was going to tell us when the time comes.

But I think we'd be less than fair if we said that on this side I think we're going to be lucky if we can come up with $760 million, which is quite a bit over what the President had in his budget. I understand the House put $879 million. If we can figure out some way to go with that, that will be one thing. You do have a lot of support over here.

You've done a good job of stating your case to us. It's almost that simple. When I come to ask questions, you've pretty well set out to me what it's going to do to you. I know that. And if you have any suggestions how we go about fighting this, maybe an easier way to find the money, we're more than willing to listen.

As I say, I know how important it is. I certainly know South Dakota's problems. I helped bring about educational TV, and I know what it's doing for our State. I know what each of your groups contribute in many, many ways to society and for the good and for the well being of a lot of people. And again, I guess all I can say is the committee is really very sympathetic to you and we're going to do everything we can.

I don't have any great commitments or promises to make to you, but I do know we have our limitations on how far we can cut back in some other areas of the budget, because it's just not there to cut anymore. Last year we kind of robbed Peter to put money into Paul, and we just can't keep going back to the well, because it's getting dry in some of those other places where they had a little money to spare.

So I don't mean to sit here and paint a drab picture, but I thought we'd get this all in proper perspective and see what the committee gives us to work with, and I guess that's where we're at at the moment.

If any of you would like to make another comment, we're more than willing to listen.

Mr. STOREY. Well, we just want to thank you for your sincere consideration.

Senator ABDNOR. We'll do everything we can, and we're all here to talk to you at any time as this progresses. If you have any thoughts in mind, why, you all know Mr. Parkinson, now. He's new to our staff, but very—his father is in the newspaper business, a weekly newspaper, if it tells you anything. He might just—he promised me he doesn't have any personal thoughts on this, but this is good for everyone.

We thank you for coming, and we'll do everything we can. Thank you.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

STATEMENTS OF:

R. G. W. CHU, COMMISSIONER, NEW YORK STATE DEPARTMENT OF TAXATION AND FINANCE

ARNOLD GORDON, CHAIRMAN, NATIONAL ASSOCIATION OF TOBACCO DISTRIBUTORS

LEON ROTHENBERG, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF TAX ADMINISTRATORS

HOWARD ANDERSON, DIRECTOR, ALCOHOL, TOBACCO AND SPECIAL TAX DIVISION, STATE OF MINNESOTA

Senator ABDNOR. Our next witnesses will be a number of participants, on the subject of the Bureau of Alcohol, Tobacco and Firearms. The New York State Department of Taxation and Finance, the National Association of Tobacco Distributors. The National Association of Tax Administrators. And the National Tobacco Tax Association.

All of our witnesses have a similar interest, and that's why we asked the gentlemen to also appear as a panel.

Our witnesses are R. G. W. Chu of the New York State Department of Taxation and Finance; Mr. Arnold Gordon, chairman of the National Association of Tobacco Distributors, and Leon Rothenberg, who is executive secretary of the National Association of Tax Administrators, and Mr. Howard Anderson, director of Alcohol, Tobacco and Special Tax Division of the Minnesota Department of Revenue, who, incidentally will be representing the National Tax Association.

Gentlemen, I welcome you all to the panel. Why don't we go in that order.

STATEMENT OF ROD CHU

Mr. CHU. My name is Rod Chu. I'm commissioner of Taxation and Finance in New York State. I requested permission to speak before this committee, as I consider the elimination of funding for the Bureau of Alcohol, Tobacco and Firearms in support of the Federal cigarette contraband law to have dire consequences to the State of New York.

For years it has been common knowledge and documented by numerous Federal agencies that New York State and a number of States throughout the Nation are in direct competition with organized crime, and private illegal entrepreneurs for the cigarette tax revenue within their respective States.

This competition, which shows up in the form of bootlegging, and counterfeiting of the tax stamps used by the States, in identifying their cigarettes, results in significant revenue loss to those States.

The problem has never been solvable in any individual State because of the interstate nature of, and organized crimes involvement in cigarette bootlegging.

In New York State alone, the Bureau of Alcohol, Tobacco and Firearms has estimated current revenue loss at $27 million. On a nationwide basis, this revenue loss equates to several hundreds of millions of dollars a year.

In light of these factors which no one really disputes, I consider it rather strange that I'm appearing before this committee in an effort to justify the mere retention of the Bureau of Alcohol, Tobacco and Firearms assistance to these States.

I would consider it much more appropriate to be here asking for additional Federal funding and involvement. I fully intend to pursue with other legislative committees and Federal agencies the Federal Government's recognition that this problem must be handled on a cooperative Federal-State level as no single individual State is capable of controlling the illegal traffic of cigarettes into its State.

I am pleased to publicly say that New York State has been very impressed by the caliber, professionalism and effectiveness of the Bureau of Alcohol, Tobacco and Firearms agents. The effectiveness of this staff is easily demonstrable, based on a chart which I have attached to my testimony.

With this Federal agency's appropriation of approximately $4 million, only a small part of which goes for efforts in New York State, they were instrumental in their first year of operation in raising New York State revenues by $6.5 million. In their second year, their efforts accounted for an increase in New York State revenue of $9.8 million.

It can be easily seen by this chart, based on a trend in the fiscal year 1982, that the elimination of Federal involvement will have a significant adverse impact on State revenues.

On a national level, ATF increased State revenue by $80 million, which would have otherwise been lost to organized crime.

There are Federal revenue implications also. By removing this income from legitimate businessmen within the country, and permitting it to become part of the underground economy, the corporation and income tax losses to the Federal Government are significant, and must amount to the hundreds of millions of dollars.

It has been conventional wisdom that one solution to the problem of untaxed cigarettes would be merely to reduce or eliminate the taxes. Sadly, that is a solution that may have fit at a different time.

The reality that we at the State level face is that a prolonged recession and declining Federal dollars have put a huge strain on our tax structure. In 1982, throughout the Nation, nine States projected deficits in their budgets; 33 States reduced their work force; 32 States cut programs, and 21 States increased taxes.

Clearly, reduced taxes for cigarettes are not in the immediate future of New York State, nor, I would suspect, of other States.

It is evident by recent Federal and State legislation that in this time of recession, legislation increasing the so-called sin taxes is a more politically, morally and socially acceptable means of raising revenue than increases in income or business tax.

In light of this, I'm dismayed by the modest efforts made by the Federal Government to improve enforcement within the cigarette tax.

While I applaud passage of the Federal cigarette contraband law, which Congress enacted in 1979, I am distressed with the lack of Federal commitment to achieve the goals of that act.

In summary, gentlemen, let me state that from the perspective of administration of the cigarette tax within New York State, I consider the modest funding requested by the Department of the Treasury for the enforcement of the cigarette contraband law to be an absolute necessity.

The Office of Management and Budget's deletion of this appropriation without considering the intent of Congress in passing the law, appears to have been extremely short sided.

I sincerely hope this committee will correct this and restore these funds.

On behalf of the State of New York I would like to express my appreciation to the committee for the opportunity to be here today and to present our views on this important issue which is clearly a joint, Federal-State problem.

Senator ABDNOR. Thank you, Mr. Chu.

Before we go along with Mr. Gordon I would just like to state that we're in the process of a live quorum that I have to answer.

I have glanced at some of this and we'll just keep moving, so we'll have time for questions.

Mr. Gordon, you go ahead, and don't be shocked if you see me get up and walk out.

STATEMENT OF ARNOLD GORDON

Mr. GORDON. All right, sir. Thank you, Mr. Chairman.

Mr. Chairman, my name is Arnold Gordon, president of the Jack Gordon Tobacco Wholesale Co. in Syracuse, N.Y.

I appear before you today representing the National Association of Tobacco Distributors in my capacity as chairman of its board of trustees.

Our membership represents over 1,370 tobacco wholesalers whose 12,000 salesmen canvass and supply the almost 1.5 million retail outlets selling tobacco products throughout the United States.

It is estimated that members of our trade and industry market goods with an annual wholesale value of over $12.4 billion. Representatives of our association have appeared before your subcommittee in prior years to present our concerns regarding appropriations for the Treasury Department, and in particular, the impact which the funding level for the Bureau of Alcohol, Tobacco and Firearms has on our industry.

There is no other national trade association with a membership more directly affected by the decisions, regulations, and enforcement functions of the tobacco part of the ATF than our association.

Mr. Chairman, we are greatly concerned that the request for fiscal year 1984 appropriations for ATF which was made by the Treasury Department to this subcommittee entirely eliminates funding for the ATF's tobacco enforcement functions.

At present, the ATF enforcement function has the prime responsibility for enforcing the Cigarette Contraband Act and preventing a resurgence of organized crime and racketeering in the distribution of cigarettes.

Nevertheless, the Treasury Department states to this Congres that:

> The Bureau's enforcement of the cigarette smuggling program will be eliminated in fiscal year 1984. ATF plans to return complete control of cigarette enforcement back to the States and systematically withdraw all Federal resources from this program.

The National Association of Tobacco Distributors urges the continued funding of the tobacco enforcement function of AFT. As a demonstration of our deep concern in this matter, the entire membership of our association unanimously passed a resolution during our recent national convention held in Chicago in March which Iwould like to read to you.

The resolution is:

> That this Association condemns the attempted repeal of congressional legislation through the device of administrative stifling of its proper enforcement by denying the enforcement arm of the Government the funds essential to the accomplishment of its task. And we call upon the Congress of the United States to restore and earmark funds for the proper affectuation of the cigarette contraband law in fiscal year 1984 and in all subsequent fiscal years.

The Cigarette Contraband Act was adopted in November 1978, and since that time the level of funding for the enforcement of the act has fluctuated considerably. The funding level began at $1.3 million in fiscal year 1979; rose to the highest level in fiscal year 1980, which was $4.4 million, and was reduced somewhat in fiscal year 1981 to $3.3 million.

The funding level dropped to its lowest level in fiscal year 1982 to a mere $1 million. In fiscal year 1983 the funding level rose again despite initial plans of the Treasury Department, to $3.8 million, and no funding is sought for fiscal year 1984.

Despite the lack of consistent funding, and the uncertainty of future funding, which must have been a very difficult burden for the management and morale of the ATF, the Bureau has achieved significant results.

The Cigarette Contraband Act was adopted in order to correct a very serious national problem. At that time the Advisory Commission on Intergovernmental Relations concluded that in 1975, there was about $391 million in revenue loss to the State and local governments in high cigarette excise tax States due to cigarette bootlegging.

However, no one really knows the extent of cigarette smuggling and revenue loss to the States since 1981, because ATF has, as far as we understand, discontinued the development and analysis of relevant statistics on a national level due to budget reductions.

We feel there is a continued need for the ATF to gather statistics in this area, and, therefore, urge the subcommittee to include language to that effect in its report.

We believe that the ATF has made excellent progress. However, two important facts are apparent in considering what ATF has done. First, the job is not complete, and second, if the ATF is removed, the problem will return.

Therefore, we urge a continued active role for the ATF in the Tobacco enforcement area, a role which is supported by continued and adequate funding.

The Treasury Department indicated in its briefing book concerning justification for fiscal year 1984 appropriations that elimination of the tobacco enforcement program results in a savings of $4.13 million dollars and reduction of $188,000 in program support.

We, therefore, recommend, that the ATF appropriation for fiscal year 1984 be $4.32 million, which is equal to the savings which the Treasury Department has estimated, because this amount is probably an accurate reflection of the level of funding which is necessary to maintain the ATF involvement at the same level as the previous fiscal year.

Moreover, we urge that this ATF appropriation, along with appropriate manpower allocations, be specifically allocated to tobacco enforcement related functions, and in particular enforcement of the Cigarette Contraband Act.

Cigarettes are a significant revenue source for the Federal Government budget, with an estimated $4.5 billion in revenue expected during fiscal year 1984. It seems altogether fitting and proper that the Federal Government does its fair share to insure that the distribution system for cigarettes in the United States is free from the pressures of smuggling, bootlegging, and organized crime.

Appropriations for the ATF in the amount of $4.32 million for 1984 is the least that could be done, given the magnitude of the revenue contributions made by the Federal excise tax. Yet there are many other policy justifications for continued funding of ATF tobacco enforcement functions beyond the fact that cigarette excise taxes produce a large revenue.

The basic cause of cigarette smuggling is the disparity in State and local cigarette excise tax rates, which produce the incentive for smuggling and bootlegging. For example, the price for a pack of cigarettes in Chicago includes 16 cents Federal, 12 cents State, 10 city, and 5 county tax, for a total of 43 cents on every pack of cigarettes.

A pack of cigarettes in the neighboring State of Kentucky includes only 16 cents Federal and a mere 3 cents State tax for a total of 19 cents.

The bootlegger would receive a profit of 24 cents for every pack of cigarettes which are purchased in Kentucky, trucked to Chicago and sold at the same price level as similar packs bought through legitimate channels. Thus, the bootlegger makes $2.40 a carton, $144 on every case, and $115,200 on a semitrailer load of smuggled cigarettes.

However, bootlegging is not the only type of cigarette tax evasion scheme. There has been an increase in the incentive for counterfeit cigarette tax stamps which are, using the Chicago area rates again as an example, could yield $129,600 in illegal profits per semitruck load.

Likewise, the incentive to steal cigarettes and hijack trucks which haul cigarettes has also increased due to higher Federal, State, and local excise taxes, since the total of value stolen cigarettes have increased, using the Chicago area again, as an example, to about $380,000 per semitruck load.

Therefore, it is easy to see that the incentives are strong for criminal elements to enter this lucrative area.

Thus, this problem is larger than a cigarette problem. It is a problem of crime prevention.

The legitimate cigarette distributors may feel the impact of this problem more directly than the general public given the fact that some distributors are forced out of business by the illegal distribution sources.

Much of the effectiveness of the Federal presence in the area of cigarette contraband is due to the experience and specialized nature of ATF enforcement.

If the ATF was not funded, who would enforce the Cigarette Contraband Act.

Any other Federal enforcement agency which would be assigned the responsibility for the enforcement of the act, would have to incur organizing, training and related startup costs before it could even begin where ATF left off.

Furthermore, tobacco enforcement would probably not be a specialty nor receive any priority from any Federal enforcement agency, other than ATF.

However, the worst part is that there would probably be no Federal agency actively enforcing the act if the ATF is not funded, since the Treasury Department stated that it plans to return complete control of the cigarette enforcement back to the States and systematically withdraw all Federal resources from this program.

Since the States were not successful in eliminating the problem prior to the act, how can the States be successful without the Federal presence in the future?

The ATF currently maintains a laboratory in Washington which is utilized in the investigation of counterfeit tax stamps. The ATF has the capability to exercise surveillance in States which are sources of contraband cigarettes. The ATF has the capability to trace contraband cigarettes across State lines. These are among the inherent advantages of the Federal presence which most, if not all States, are unable to duplicate. In fact, the significant amount of ATF effort goes into training State personnel, assisting States in the development and implementation of efficient audit and inspection programs which are necesary for tobacco enforcement.

It is unreasonable to assume that the States are equipped to handle this national problem without any assistance from the Federal Government. The circumstances which foster cigarette tax evasion schemes have not been eliminated, but have been enhanced. And hence, there is a greater motive for the resurgence of this activity.

The only solution is a continued Federal presence in the tobacco enforcement area. The Federal presence is a deterrence to organized crime, an assistance to State enforcement authorities, and the only means to control the problem which is by definition an interstate problem.

Therefore, we urge continued appropriations for the Bureau of Alcohol, Tobacco and Firearms which will allow that agency to fulfill its important responsibilities in the enforcement area.

Thank you, very much.

STATEMENT OF LEON ROTHENBERG

Mr. PARKINSON [presiding]. Thank you, Mr. Gordon. Our next witness will be from the National Association of Tax Administrators, Mr. Rothenberg. Please proceed.

Mr. ROTHENBERG. My name is Leon Rothenberg. I am executive secretary of the National Association of Tax Administrators.

The National Association of Tax Administrators is an organization of the tax agencies of each of the 50 State governments. Its principal membership is the tax commissioners and directors of revenue of the State tax agencies.

Since the passage of Public Law 95-575, the contraband cigarette law, NATA has adopted resolutions of support for an appropriation for the Bureau of Alcohol, Tobacco and Firearms adequate in amount to permit ATF's continuing present in cigarette law enforcement.

NATA believes that there are urgent and special needs in State taxation and State finance which make it highly important to continue that appropriation.

This statement will address those needs by commenting briefly on the severity of the State's revenue requirements, of the nationwide vulnerability of the State's to cigarette smuggling, and the effectiveness of the Federal-State cooperation under Public Law 95-575.

Initially, as Commissioner Chu has pointed out, almost all State governments are currently confronted by budget-balancing problems which are more severe than at any time in the past decade.

Reports from this year's legislative sessions indicate that almost all State budgets can be balanced only through tax increases or substantial cuts in expenditures. Under such circumstances, the loss of any significant amount of revenue through cigarette smuggling would add to the State's already onerous fiscal burden.

Cigarette smuggling, if left unchecked, can explode quickly and result in the loss of hundreds of millions of dollars in annual State revenue. At a time when the Federal Government is stressing the need for effective tax enforcement, and the closing of tax loopholes, the States question the wisdom of deleting an appropriation which is relatively small in amount and which has been most effective in conserving important amounts of States' revenues, and lessening the costly problems of State and local law enforcement.

Second, NATA respectively requests that Congress in considering the ATF appropriation for fiscal year 1984 recognize that the problem of cigarette smuggling is potentially nationwide in scope, much more so than in 1978 when Public Law 95-575 was enacted.

At that time the Advisory Commission on Intergovernmental Relations reported that cigarette-smuggling problems arose when the difference in the cigarette tax rates of any 2 States in the same region was 10 cents per pack or more, and that in 1977, this difference made smuggling an actual or potential problem in 22 States.

On this basis, with cigarette taxes at their present level, smuggling can easily become a problem in a considerable majority of the States if there were no effective implementation of the Federal contraband cigarette law.

In 1978, when Congress made cigarette smuggling a Federal offense, the maximum State and local cigarette tax rate was 23 cents. In that year there were three States with tax rates in excess of 20 cents a pack, and a dozen States with the rates between 15 and 19 cents per pack.

Of the low tax States, North Carolina, Virginia, and Kentucky, then as now, tax cigarettes at 2, 2.5, and 3 cents per pack respectively.

Since 1978, even though cigarette tax rate raises were not nearly as numerous as in the 1960's, they have been frequent. At the present time, New York City, with a combined State and local tax of 29 cents per pack, has the highest rate. Chicago is second with a 27-cent rate. Wisconsin has a 25-cent rate. And New Jersey has a 24-cent rate. And Rhode Island and the State of Washington, a 23-cent rate.

There are now 11 States with State and local cigarette tax rates that exceed 20 cents per pack and there are 13 States with rates between 15 and 19 cents per pack.

There are many States in every region of the country with rates which exceed those of the lowest taxing States by more than 10 cents per pack, the profit margin which the Advisory Commission on Intergovernmental Relations found to be a trigger for bootlegging.

ATF has worked with the States and every region to curb the interstate traffic in illicit cigarettes. If through the deletion of a specific appropriation for cigarette law enforcement, ATF were deprived of the means for working with State tax agencies in this area of State and Federal concern, NATA believes that one can look for the sporadic outbreak of smuggling in every region of the country

It should also be pointed out that under Public Law 95–575, the combined State-Federal effort against cigarette smuggling has been a marvel of intergovernmental cooperation. ATF and the State tax agencies have established excellent working relationships. In doing so, they have fulfilled Congress' intention that under Public Law 95–575, the States continue to assume primary responsibility for cigarette tax enforcement, while ATF provide the means for closing avenues of evasion that are purely interstate in character.

This month, as a result of ATF-State cooperation, ATF will issue a handbook on cigarette accountability and tax collection which may serve as a standard for State audit and enforcement procedures directed at interstate cigarette tax evasion.

The issuance of the ATF handbook will institute a national effort to make cigarette tax enforcement more uniform and effective throughout the country. While the States are necessarily limited in their ability to deal with interstate crime, the handbook will provide the basis for a program under which ATF would assist the States and serve in an advisory capacity in developing State enforcement procedures which would contribute importantly to the discovery of cigarette smuggling.

The States have looked forward to working with ATF in this effort, and its potential for success would be seriously affected if ATF's participation were removed because of the deleted appropriation.

NATA believes it is important to stress that under Public Law 95–575, an effective Federal-State cooperation program has been established to address intergovernmental problems in cigarette enforcement.

The deletion of a specific appropriation and earmarked man-years for this purpose would abruptly terminate this cooperative program with serious consequences for the future control of cigarette smuggling.

Again, NATA expresses appreciation to the committee for the consideration it has given to the States' concerns in this important matter and for the opportunity to testify today.

STATEMENT OF HOWARD ANDERSON

Mr. PARKINSON. Thank you, Mr. Rothenberg. Now, we'll have testimony from Mr. Howard Anderson, director of the Alcohol, Tobacco and Special Tax Division for the State of Minnesota, representing the National Tobacco Tax Association. Please proceed.

Mr. ANDERSON. Thank you. My name is Howard Anderson, and I am the president of the National Tobacco Tax Association.

The National Tobacco Tax Assocation, an organization of the tobacco tax administrators in the State tax agencies of 50 States, joins with the National Association of Tax Administrators in expressing its appreciation to this subcommittee for the opportunity to convey the State tax agencies' view that funds should again be appropriated to the Bureau of Alcohol, Tobacco and Firearms for enforcement of the Federal contraband cigarette law.

The State tobacco tax administrators respectfully urge Congress to continue a specific appropriation for cigarette enforcement because it is needed to prevent a resurgence in cigarette smuggling and to avoid a loss in tax revenues which are urgently needed by all State governments.

Last year, in response to this committee's sympathetic regard for the States' concerns, Congress restored the ATF's appropriation for cigarette law enforcement after it had been deleted from the proposed budget for the fiscal year 1983.

The restored appropriation made it possible for ATF to continue its presence in a cooperative State-Federal effort against cigarette smuggling.

ATF's presence has been an essential element in forestalling growth in smuggling at a time when significant growth in this illicit activity could be expected to occur.

Because of the ATF presence, cigarette smuggling was kept in check, despite the business recession and higher cigarette tax rates.

These are conditions which promote cigarette smuggling. Yet, in 1982–83, as a result of the effective enforcement by State and Federal authorities, major cigarette tax evasion violations occurred only in a small number of States. Nevertheless, these incidents indicated how quickly cigarette smuggling could again become a national problem if the Federal Government abandoned its responsibility to enforce Public Law 95–575.

In New York alone, in 1 year, State and local governments would have lost many times the ATF appropriation for cigarette enforcement if the New York and Federal authorities had not been able to combine to apprehend and convict major cigarette tax violators.

Within a few weeks, the potential loss from this operation involving the interstate transportation of cigarettes and counterfeit stamps approximated $1 million.

In 1982–83 there were also smuggling discoveries in 11 other States throughout the country. Smuggling has been discovered, and smugglers convicted through the combined efforts of State authorities and the Bureau of Alcohol, Tobacco and Firearms.

The point that must be stressed in evaluating State and ATF cigarette enforcement efforts last year is that without State-Federal cooperation, undiscovered smuggling would have caused a constant drain on State revenues.

In cigarette smuggling, the illicit operator's success provides a powerful stimulus for him to expand his own operations and for others to join him.

The States' experience in the 1960's and 1970's showed that once markets were established for smuggled cigarettes, these operations spread with amazing rapidity.

Before the enactment of the Federal contraband law in 1978, the Advisory Commission on Intergovernmental Relations estimated the annual State revenue loss from cigarette tax evasion at nearly $400 million.

If smugglers had no need to fear Federal enforcement and prosecution, that former level of cigarette tax evasion could be reached and exceeded very quickly.

In testimony presented to this subcommittee last year, NTTA stressed several reasons why State-Federal accomplishments in the efforts against smuggling could be lost without an ATF appropriation for this purpose. There have been a number of developments which have made these reasons even more relevant this year than last, and with this subcommittee's permission, NTTA wishes to briefly point the following:

Because the States, like the Federal Government, have great need for added revenue, nine States raised their cigarette taxes in 1982, and an additional number will raise theirs this year.

The profit motive for smuggling is much greater now than it was in 1978 when Public Law 95–575 was passed. The National Association of Tax Administrators has discussed in its presentation this afternoon why, as a result of rising cigarette rates, the potential profits from cigarette smuggling, always large, are now much greater than ever before.

If at this point the Federal budget were to make no provision for enforcement of Public Law 95–575, it would be an open invitation for smugglers to return to their former operation and to enjoy huge, illicit profits with little concern over the possibility of discovery.

This would occur because a State's jurisdiction to deal with cigarette tax evaders ends at the State's lines, and the removal of Federal enforcement authority would be a signal to bootleggers that conditions in which they were able to operate so easily in the 1960's and 1970's had been restored.

Moreover, bootleggers can return to their illicit activities with little notice. They require only a rented truck, a driver, and enough capital to purchase cigarettes in low tax States. Also there is concern that organized crime may bypass the need for the capital by resorting to hijacking as a means of providing a cost-free source of a supply of bootlegged cigarettes.

The doubling of the Federal cigarette tax rate has provided a strong incentive in this regard.

The deletion of ATF's appropriation for cigarette law enforcement would suggest that cigarette smuggling is a resolved or nearly resolved matter.

In actual fact, as this testimony has sought to show, there may be a greater current need for the effective implementation of Public Law 95–575 than at any time since the immediate period following the enactment of that law.

Again, I express NTTA's thanks for the consideration this committee has given to State tax agencies concerns in the past, and for the opportunity to discuss this important State matter with the committee.

Senator ABDNOR [presiding]. Well, thank you, Mr. Anderson.

We certainly appreciate all of you gentlemen coming from so far to give us the benefit of your testimony. I'm sure you follow this sort of thing well enough to know that we are inclined to concur with you. I've just been thinking, we had quite a session, you recall, last year, making sure that the ATF stayed in business, and we do think they're doing good work.

I'm just wondering since we had you in here last year, the tobacco taxes have increased, just about doubled. Has that affected the illegal activity any, made it more common?

Mr. ANDERSON. The Federal cigarette tax is paid at the manufacturers' level, so really there is no evasion of cigarette tax.

There is, of course, considerable evasion of income taxes when cigarettes are illicitly sold.

Senator ABDNOR. Well, didn't many of the States raise their cigarette taxes last year?

Mr. ANDERSON. Yes; many of the States have raised their cigarette taxes, which increases the incentive for cigarette bootlegging.

Senator ABDNOR. Does this occur pretty well all over the country, or mostly in one area? Are there areas of the country that are more so than the other? I know New York——

Mr. ANDERSON. No; I think it's spread geographically across the United States.

Senator ABDNOR. Well, let me ask you this: I'm sure you are familiar with the sums of money we appropriated last year. Did that seem to take care of the problem? Would you say it was well handled in this year we're in?

Mr. ANDERSON. I would say that the ATF made very good use, very efficient use of the money that was appropriated, and it—if that money were restored this year, we feel it would go a long way toward holding down the bootlegging of cigarettes.

Senator ABDNOR. We hear a lot from New York. How do you feel about that, Mr. Chu?

Mr. CHU. Mr. Chairman, certainly the minimum efforts would be what we have been accustomed to in the past. The records that we can get our hands on indicate that we've been capturing only one-fourth of the bootlegged cigarettes that are coming into the State.

So I look forward to increasing New York State's efforts, but those efforts would all be in vain if I didn't have a corresponding cooperation with ATF.

Senator ABDNOR. They work well together, the State officials and ATF?

Mr. CHU. Oh, absolutely. I think they're outstanding.

Senator ABDNOR. Well, gentlemen, I didn't have to tell you, we're very interested. I happen to feel that we receive a good return for what's being done, and you probably heard my little speech to the other group, that we do have dollar restrictions, but we'll do everything we can because we believe strongly in the ATF and the work they're doing and we think there is a real need for them, and we thank you for your support to back us up on what we've got to do.

PREPARED STATEMENTS

Thank you. We will insert all the prepared statements of this panel in the record at this point.

[The statements follow:]

Statement of Roderick G. W. Chu

I REQUESTED PERMISSION TO SPEAK BEFORE THIS COMMITTEE AS I CONSIDER THE ELIMINATION OF FUNDING FOR THE BUREAU OF ALCOHOL, TOBACCO AND FIREARMS IN SUPPORT OF THE FEDERAL CIGARETTE CONTRABAND LAW TO HAVE DIRE CONSEQUENCES TO THE STATE OF NEW YORK.

FOR YEARS IT HAS BEEN COMMON KNOWLEDGE -- AND DOCUMENTED BY NUMEROUS FEDERAL AGENCIES -- THAT NEW YORK STATE AND A NUMBER OF STATES THROUGHOUT THE NATION ARE IN DIRECT COMPETITION WITH ORGANIZED CRIME AND PRIVATE ILLEGAL ENTREPRENEURS FOR THE CIGARETTE REVENUE WITHIN THEIR RESPECTIVE STATES. THIS COMPETITION, WHICH SHOWS UP IN THE FORM OF BOOTLEGGING AND COUNTERFEITING OF THE STAMPS USED BY THE STATES IN IDENTIFYING THEIR CIGARETTES, RESULTS IN SIGNIFICANT REVENUE LOSS TO THOSE STATES. THE PROBLEM HAS NEVER BEEN SOLVABLE BY ANY INDIVIDUAL STATE BECAUSE OF THE INTERSTATE NATURE OF AND ORGANIZED CRIME'S INVOLVEMENT IN CIGARETTE BOOTLEGGING. IN NEW YORK STATE ALONE, THE BUREAU OF ALCOHOL, TOBACCO AND FIREARMS HAS ESTIMATED THE CURRENT REVENUE LOSS AT $27 MILLION. ON A NATIONWIDE BASIS, THIS REVENUE LOSS TO EQUATES TO SEVERAL HUNDREDS OF MILLIONS OF DOLLARS.

IN LIGHT OF THESE FACTORS, WHICH NO ONE DISPUTES, I CONSIDER IT A PARADOX THAT I AM APPEARING BEFORE THIS COMMITTEE IN AN EFFORT TO JUSTIFY THE RETENTION OF THE BUREAU OF ALCOHOL, TOBACCO AND FIREARMS' AID TO THE STATES. I WOULD CONSIDER IT MUCH MORE APPROPRIATE TO BE HERE ASKING FOR ADDITIONAL FEDERAL FUNDING AND INVOLVEMENT. I FULLY INTEND TO PURSUE WITH OTHER LEGISLATIVE COMMITTEES AND FEDERAL AGENCIES THE FEDERAL GOVERNMENT'S RECOGNITION THAT THIS PROBLEM MUST BE HANDLED ON A COOPERATIVE FEDERAL/STATE LEVEL, AS NO SINGLE INDIVIDUAL STATE IS CAPABLE OF CONTROLLING THE ILLEGAL TRAFFIC OF CIGARETTES INTO ITS STATE. I AM PLEASED TO PUBLICLY STATE THAT NEW YORK STATE HAS BEEN VERY IMPRESSED BY THE CALIBER, PROFESSIONALISM AND EFFECTIVENESS OF THE BUREAU OF ALCOHOL, TOBACCO AND FIREARMS' AGENTS. THE EFFECTIVENESS OF THIS STAFF IS EASILY DEMONSTRABLE BASED ON THE CHART WHICH I HAVE ATTACHED TO MY TESTIMONY. WITH THIS FEDERAL AGENCY'S APPROPRIATION OF APPROXIMATELY $4 MILLION, THEY WERE INSTRUMENTAL IN THEIR FIRST YEAR OF OPERATION IN RAISING NEW YORK STATE REVENUES BY $6.5 MILLION. IN THEIR SECOND YEAR, THEIR EFFORTS ACCOUNTED FOR AN INCREASE IN NEW YORK STATE REVENUE OF $9.8 MILLION. IT CAN EASILY BE SEEN BY THIS CHART, BASED ON A TREND IN FISCAL YEAR 1982, THAT THE ELIMINATION OF THE FEDERAL INVOLVEMENT WILL HAVE A SIGNIFICANT ADVERSE IMPACT ON STATE REVENUES. ON A NATIONAL LEVEL, THE BUREAU OF ALCOHOL, TOBACCO AND FIREARMS INCREASED STATE REVENUE BY $80 MILLION WHICH WOULD OTHERWISE BE LOST TO ORGANIZED CRIME. THERE ARE FEDERAL REVENUE IMPLICATIONS ALSO. BY REMOVING THIS INCOME FROM THE LEGITIMATE BUSINESSMAN WITHIN THE COUNTRY AND PERMITTING IT TO BECOME PART OF THE UNDERGROUND ECONOMY, THE CORPORATION AND INCOME TAX LOSSES ARE SIGNIFICANT AND MUST AMOUNT TO HUNDREDS OF MILLIONS OF DOLLARS.

IT HAS BEEN CONVENTIONAL WISDOM THAT ONE SOLUTION TO THE PROBLEM OF UNTAXED CIGARETTES WOULD BE MERELY TO REDUCE TAXES. SADLY, THAT IS A SOLUTION THAT MAY HAVE FIT AT A DIFFERENT TIME. THE REALITY THAT WE AT THE STATE LEVEL FACE IS PROLONGED RECESSION AND DECLINING FEDERAL DOLLARS HAVE PUT A HUGE STRAIN ON OUR TAX STRUCTURE. IN 1982, THROUGHOUT THE NATION:

- 9 STATES PROJECTED DEFICITS IN THEIR BUDGETS
- 33 STATES REDUCED THEIR WORKFORCE
- 32 STATES CUT PROGRAMS, AND
- 21 STATES INCREASED TAXES.

CLEARLY, REDUCED TAXES FOR CIGARETTES ARE NOT IN THE IMMEDIATE FUTURE OF NEW YORK STATE AND, I WOULD SUSPECT, OTHER STATES. IT IS CLEARLY EVIDENT BY RECENT FEDERAL AND STATE LEGISLATION THAT IN THIS TIME OF RECESSION, LEGISLATION INCREASING THE "SIN" TAXES IS CLEARLY A MORE POLITICALLY, MORALLY AND SOCIALLY ACCEPTABLE MEANS OF RAISING REVENUE THAN INCREASES IN INCOME OR BUSINESS TAXES. IN LIGHT OF THIS, I AM DISMAYED BY THE MODEST EFFORTS MADE BY THE FEDERAL GOVERNMENT TO IMPROVE ENFORCEMENT WITHIN THE CIGARETTE TAX. WHILE I APPLAUD PASSAGE OF THE FEDERAL CIGARETTE CONTRABAND LAW WHICH CONGRESS ENACTED IN 1979, I AM DISTRESSED WITH THE LACK OF FEDERAL COMMITMENT TO ACHIEVE THE GOALS OF THAT ACT.

IN SUMMARY, GENTLEMEN, LET ME STATE THAT FROM A PERSPECTIVE OF ADMINISTRATION OF THE CIGARETTE TAX WITHIN NEW YORK STATE, I CONSIDER THE MODEST FUNDING REQUESTED BY THE DEPARTMENT OF THE TREASURY FOR ENFORCEMENT OF THE CIGARETTE CONTRABAND LAW AN ABSOLUTE NECESSITY. TO FIND THAT THE OFFICE OF MANAGEMENT AND BUDGET DELETED THIS APPROPRIATION WITHOUT CONSIDERING THE INTENT OF CONGRESS IN PASSING THE LAW APPEARS EXTREMELY SHORTSIGHTED. I SINCERELY HOPE THIS COMMITTEE WILL CORRECT THIS AND RESTORE THESE FUNDS.

STATEMENT OF ARNOLD S. GORDON

Mr. Chairman and Members of the Subcommittee, my name is Arnold Gordon, of Jack Gordon Wholesale Tobacco Company located in Syracuse, New York. I appear before you today representing the National Association of Tobacco Distributors (NATD) in my capacity as Chairman of the Association's Board of Trustees. Our membership represents over 1,370 tobacco wholesalers, whose 12,000 salesmen canvass and supply the almost 1.5 million retail outlets selling tobacco products throughout the United States. It is estimated that members of our trade and industry market goods with an annual wholesale value of over $12.4 billion dollars.

Representatives of our Association have appeared before your Subcommittee in prior years to present our concerns regarding appropriations for the Treasury Department and, in particular, the impact which the funding level for the Bureau of Alcohol, Tobacco and Firearms (ATF) has on our industry. There is no other national trade association with a membership more directly affected by the decisions, regulations and enforcement functions of the tobacco part of the ATF, than our Association.

Mr. Chairman, we are greatly concerned that the request for fiscal year 1984 appropriations for the ATF, which was made by the Treasury Department to this Subcommittee, entirely eliminates funding for the ATF's tobacco enforcement functions. At present the ATF enforcement function has the prime responsibility for enforcing the Cigarette Contraband Act (P.L. 95-575), and preventing a resurgence of organized crime and racketeering in the distribution of cigarettes. Nevertheless, the Treasury Department states to this Congress that:

> "The Bureau's enforcement of the cigarette smuggling program will be eliminated in FY 1984. ATF plans

> to return complete control of cigarette enforcement back to the states and systematically withdraw all federal resources from this program."

The National Association of Tobacco Distributors urges the continued funding of the tobacco enforcement functions of ATF. As a demonstration of our deep concern in this matter, the entire membership of our Association unanimously passed a resolution during our recent national convention held in Chicago in March, which I would like to read to you. The resolution states:

> "This Association has heretofore often expressed its concern with attempts on the part of the current Administration to deny the Bureau of Alcohol, Tobacco and Fire Arms adequate funding for the enforcement of the Cigarette Contraband Law (Public Law 95-375) and is dismayed to discover that the Federal Budget, as submitted to Congress, contains absolutely no appropriation for the enforcement of said law in fiscal year 1984 or thereafter. Since the Cigarette Contraband Law has had marked and demonstrable value in preserving state revenues and the business of legitimate wholesale tobacco distributors, thus conferring economic benefit manifold in excess of the small amount required for the law's enforcement, it is hereby
>
> RESOLVED: That this Association condemns the attempted repeal of congressional legislation through the device of administrative stifling of its proper enforcement by denying the enforcement arm of the government the funds essential to the accomplishment of its task and we call upon the Congress of the United States to restore and earmark funds for the proper effectuation of the Cig-

arette Contraband Law in fiscal year 1984 and in all subsequent fiscal years; and it is further

RESOLVED: That the appropriate officers of this Association take whatever action may be proper and lawful for the effectuation of the foregoing resolution.

The Cigarette Contraband Act was adopted in November, 1978, and since that time the level of funding for the enforcement of the act has fluctuated considerably. The funding level began at $1.3 million in FY 1979; rose to the highest level in FY 1980, which was $4.0; and was reduced somewhat in FY 1981 to $3.3 million. The funding level dropped to its lowest level in FY 1982, to a mere $1.0 million. In FY 1983 the funding level rose again, despite initial plans of the Treasury Department, to $3.8 million; and no funding is sought for FY 1984.

Despite the lack of consistant funding and the uncertainty of future funding, which must have been a very difficult burden for the management and morale of the ATF, the Bureau has achieved significant results. The Cigarette Contraband Act was adopted in order to correct a very serious national problem. At that time the Advisory Commission on Intergovernmental Relations concluded that in 1975 there was about $391 million in revenue loss to State and local governments in high-cigarette-excise-tax states due to cigarette bootlegging. Since the passage of the Act and the involvement of the ATF, the revenue loss has been substantially reduced to an estimated loss of about $332 million in 1979, and about $272 million in 1980.

However, no one really knows the extent of cigarette smuggling and revenue loss to the states since 1981 because ATF has, as far as we understand, discontinued the development and analysis of relevant statistics on a national level due to budget reductions. We feel there is a continued need for the ATF to gather statistics in this area and therefore urge the Subcommittee to include language to that effect in its report.

We believe that the ATF has made excellent progress. However, two important facts are apparent in considering what ATF has done. First, the job is not complete; and second, if the ATF is removed the problem will return. Therefore we urge a continued active role for the ATF in the tobacco enforcement area; a role which is supported by continued and adequate funding.

The Treasury Department indicated, in its briefing book concerning justification for FY 1984 appropriations, that elimination of the tobacco enforcement program results in a savings of $4,130,000 and 66 average positions and a reduction of $188,000 and 3 average positions in program support. We therefore recommend that the ATF appropriation for FY 1984 be $4.32 million, which is equal to the "savings" which the Treasury Department has estimated, because this amount is probably an accurate reflection of the level of funding which is necessary to maintain the ATF involvement at the same level as the previous fiscal year. Moreover, we urge that this ATF appropriation, along with the appropriate manpower allocations, be specifically allocated to tobacco enforcement related functions and, in particular, enforcement of the Cigarette Contraband Act.

Cigarettes are a significant revenue source for the federal government budget, with an estimated $4.5 billion in revenue expected during FY 1984. It seems altogether fitting and proper that the federal government does its fair share to ensure that the distribution system for cigarettes in the United States is free from the pressures of smuggling, bootlegging and organized crime. Appropriations for the ATF in the amount of $4.32 million for FY 1984 is the least that could be done given the magnitude of the revenue contributions made by the federal cigarette excise tax. Yet there are many other policy justifications for continued funding of ATF tobacco enforcement functions beyond the fact that cigarette excise taxes produce such a large revenue.

The basic cause of cigarette smuggling is the disparity in state and local cigarette excise tax rates which produce the incentive for smuggling and bootlegging. For example, the price for a pack of cigarettes in Chicago includes 16 cents federal tax, 12 cents state tax, 10 cents city tax and 5 cents county tax, for a total of 43 cents in excise taxes; while the price of a pack of cigarettes from the neighboring State of Kentucky includes only 16 cents federal tax and a mere 3 cents state tax for a total of 19 cents in excise taxes. A bootlegger would receive a profit of 24 cents for every pack of cigarettes which was purchased in Kentucky, trucked to Chicago and sold at the same price as similar packs sold through legitimate channels. Thus, a bootlegger makes $2.40 per carton, $144 per case or $115,200 per semi-trailer load of smuggled cigarettes. This incentive for smuggling exists in every state with high cigarette excise taxes.

However, bootlegging is not the only type of cigarette tax evasion scheme. There has been an increase in the incentive for counterfeiting cigarette tax stamps, for such a practice, using the Chicago-area rates again as an example, could yield $129,600 in illegal profits per semi-truckload. Likewise, the incentive to steal cigarettes and hijack trucks which haul cigarettes has also increased due to higher federal, state and local excise taxes, since the total value of stolen cigarettes have increased, using the Chicago-area again as an example, to about $380,000 per semi-truckload.

Therefore, it is easy to see that the incentives are strong for criminal elements to enter this lucrative area. Thus, this problem is larger than a cigarette problem; it is a problem of crime prevention. The legitimate cigarette distributors may feel the impact of this problem more directly than the general public, given the fact that some distributors are forced out of business by the illegal distribution sources. Nevertheless, all members of society suffer--from the innocent victim of an armed hijacking to the taxpayers who must pay higher taxes to compensate for the revenue lost through illegal schemes.

In May, 1977, which was prior to passage of the Cigarette Contraband Act, Time Magazine published an in-depth issue concerning organized crime that showed cigarette bootlegging as one of the top six rackets, producing gross revenues of $1.5 billion for organized crime. Mr. Chairman, we cannot allow this nation to return to the 1970s by removing funding from ATF tobacco enforcement programs.

Much of the effectiveness of the federal presence in the area of cigarette contraband is due to the experience and specialized nature of ATF enforcement. If the ATF was not funded, who would enforce the Cigarette Contraband Act? Any other federal enforcement agency which would be assigned the responsibility for enforcement of the Act would have to incur organizing, training and related start-up costs before it could even begin where ATF left off. Furthermore, tobacco enforcement would probably not be a specialty nor receive any priority from any federal enforcement agency other that ATF.

However, the worst part is that there would probably be no federal agency actively enforcing the Act if the ATF is not funded since the Treasury Department stated that it "plans to return complete control of cigarette enforcement back to the states and systematically withdraw all federal resources from this program." Since the states were not successful in eliminating the problem prior to the Act, how can the states be successful without a federal presence in the future?

The ATF currently maintains a laboratory in Washington, D.C. which is utilized in the investigation of counterfeit tax stamps. The ATF has the capability to exercise surveillance in states which are sources of contraband cigarettes. The ATF has the capability to trace contraband cigarettes across state lines. These are among the inherent advantages of the federal presence which most, if not all states, are unable to duplicate.

In fact, a significant amount of ATF effort goes into training state personnel and assisting states in the development and implementation of efficient audit and inspection programs which are necessary for tobacco enforcement. It is unreasonable to assume that the states are equipped to handle this national problem without any assistance from the federal government.

The ATF has demonstrated that an effective federal presence can significantly reduce the smuggling problem. In recent months the ATF, despite its reduced funding, has been effective in apprehending bootleggers and counterfeiters. For example, last November, 1982, the ATF caught a counterfeiting group in Long Island, New York, which had $1 million worth of counterfeit stamps to distribute 4.3 million packs of contraband cigarettes having a street value of $4 million.

The circumstances which foster cigarette tax evasion schemes have not been eliminated, but rather have been enhanced, and hense there is a greater motive for the resurgence of this activity. The only solution is a continued federal presence in the tobacco enforcement area. The federal presence is a deterrent to organized crime, an assistance to state enforcement authorities, and the only means to control a problem which is by definition an interstate problem. Therefore, we urge continued appropriations for the Bureau of Alcohol, Tobacco and Firearms which will allow that agency to fulfill its important responsibilities in the enforcement area.

STATEMENT OF THE NATIONAL ASSOCIATION OF TAX ADMINISTRATORS

The National Association of Tax Administrators joins with the National Tobacco Tax Association in welcoming this opportunity to convey to this Committee its concerns over the possible elimination of the Bureau of Alcohol, Tobacco and Firearms' appropriation for cigarette law enforcement in the federal budget for the fiscal year 1984.

The National Association of Tax Administrators is an organization of the tax agencies of each of the fifty state governments. Its principal membership is the tax commissioners and directors of revenue of the state tax agencies. These are the officials who have responsibility for the collection of state taxes and who serve as the principal tax advisors to the governors of the respective states.

Since the passage of P.L.95-575, the contraband cigarette law, NATA has adopted resolutions of support for an appropriation for the Bureau of Alcohol, Tobacco and Firearms, adequate in amount to permit ATF's continuing presence in cigarette law enforcement. NATA believes that there are urgent and special needs in state taxation and state finance which makes it highly important to continue that appropriation. This statement will address those needs by commenting briefly on the severity of the states' revenue requirements, the nationwide vulnerability of the states to cigarette smuggling, and the effectiveness of federal-state cooperation under P.L.95-575.

Severity of State Revenue Needs

Initially, it should be stressed that, currently, virtually all state governments are confronted by budget-balancing problems which are more severe than at any time in the past decade. Reports from this year's legislative sessions indicate that, in almost all states, budgets can be balanced only through tax increases or substantial cuts in expenditures. Under such circumstances, the loss of any significant amount of revenue through cigarette smuggling would add to the states' already onerous fiscal burdens.

As has been pointed out in testimony presented by the National Tobacco Tax Association to this committee, cigarette smuggling, if left unchecked, can explode quickly and result in the loss of hundreds of millions of dollars in annual state revenue. At a time when the federal government is stressing the need for effective tax enforcement and the closing of tax loopholes, the states question the wisdom of deleting an appropriation which is relatively small in amount and which has already proved to be highly effective in conserving important amounts of state revenue and in lessening the costly problems of state and local law enforcement.

Nationwide Vulnerability of Cigarette Smuggling

Secondly, NATA respectfully requests that Congress, in considering the ATF appropriation for fiscal year 1984, recognize that the problem of cigarette smuggling is potentially nationwide in scope--much more so than in 1978 when P.L.95-575 was enacted. At that time, the Advisory Commission on Intergovernmental Relations reported that cigarette smuggling problems arose when the difference in the cigarette tax rates of any two states in the same region was 10 cents per pack or more, and that in 1977, this difference made smuggling an actual or potential problem in 22 states. On this basis, with cigarette taxes at their present level, smuggling can easily become a problem in a considerable majority of the states, if there were no effective implementation of the federal contraband cigarette law.

In 1978, when Congress made cigarette smuggling a federal offense, the maximum state and local cigarette tax rate was 23 cents. In that year there were three states with tax rates in excess of 20 cents per pack and a dozen states with rates between 15 cents and 19 cents per pack. The low tax states--North Carolina, Virginia and Kentucky--then as now, taxed cigarettes at 2, 2.5, and 3 cents per pack respectively.

Since 1978, even though cigarette tax rate raises were not nearly as numerous as in the 1960s, they have been frequent. At the present time, New York City, with a combined state-local tax of 29 cents per pack, has the highest rate. Chicago is second with a 27 cent rate. Wisconsin has a 25 cent rate; New Jersey, a 24 cent rate, and Rhode Island and the State of Washington, a 23 cent rate. There are now 11 states with state and local cigarette tax rates that exceed 20 cents per pack, and there are a 13 states with rates between 15 cents and 19 cents per pack.

There are many states in every region with rates which exceed those of the lowest taxing states by more than 10 cents per pack--the profit margin which the Advisory Commission on Intergovernmental Relations found to be a trigger for bootlegging. Among the East Coast states between Massachusetts and Virginia, there are only three with tax rates of 14 cents per pack or less. In the South, a large majority of states either border North Carolina, Virginia or Kentucky, or have a tax rate that is at least 10 cents more than the rates in these states. A similar situation prevails in the Midwest, where rates of 18 cents or more are in effect in 7 states, and where another 3 states either have a 14 or 15 cents per pack tax or border a low tax state. In the West, there are at least 2 states where high tax rates and the proximity to lower tax states make them prime targets for smuggling.

Again, ATF has worked with states in every region to curb the interstate traffic in illicit cigarettes. If, through the deletion of a specific appropriation for cigarette law enforcement, ATF were deprived of the means for working with state tax agencies in this area of state-federal concern, NATA believes that one could look for the sporadic outbreak of smuggling in every region in the country.

ATF-State Cooperation

It should also be pointed out that, under P.L.95-575, the combined state-federal effort against cigarette smuggling has been a model of intergovernmental cooperation. ATF and state tax agencies have established excellent working relationships. In doing so, they have fulfilled Congress' intention that, under P.L.95-575, the states continue to assume primary responsibility for cigarette tax enforcement while ATF provided the means for closing avenues of evasion that are purely interstate in character.

This month, as a result of ATF-state cooperation, ATF will issue a handbook on cigarette accountability and tax collection, which may serve as a standard for state audit and enforcement procedures directed at interstate cigarette tax evasion.

The issuance of the ATF handbook will institute a national effort to make cigarette tax enforcement more uniform and effective throughout the country. While the states are necessarily limited in their ability to deal with interstate crime, the handbook will provide the basis for a program under which ATF would assist the states and serve in an advisory capacity in developing state enforcement procedures which would contribute importantly to the discovery of cigarette smuggling. The states have looked forward to working with ATF in this effort. Its potential for success would be seriously affected if ATF's participation were removed because of the deleted appropriation.

NATA believes it is important to stress that under P.L.95-575, an effective federal-state cooperation program has been established to address intergovernmental problems in cigarette enforcement. The deletion of a specific appropriation and earmarked man-years for this purpose would abruptly terminate this cooperative program, with serious consequences for the future control of cigarette smuggling.

Again, NATA expresses its appreciation to the Committee for the consideration it has given the states' concerns in this important matter and for the opportunity to present testimony today.

STATEMENT OF THE NATIONAL TOBACCO TAX ASSOCIATION

The National Tobacco Tax Association, an organization of the tobacco tax administrators in the state tax agencies of the 50 states, joins with the National Association of Tax Administrators in expressing its appreciation to the Senate Subcommittee on Treasury, Postal Service and General Government for the opportunity to convey the state tax agencies' view that, in fiscal year 1984, funds should again be appropriated to the Bureau of Alcohol, Tobacco and Firearms for the enforcement of P.L.95-575, the federal contraband cigarette law.

The state tobacco tax administrators respectfully urge Congress to continue a specific appropriation for cigarette enforcement because it is needed to prevent a resurgence in cigarette smuggling and to avoid a loss in tax revenues which are urgently needed by all state governments.

Cigarette Smuggling in 1982-83

Last year, in response to this Committee's sympathetic regard for the states' concerns, Congress restored the ATF's appropriation for cigarette law enforcement after it had been deleted from the proposed budget for the fiscal year 1983. The restored appropriation made it possible for ATF to continue its presence in the cooperative state-federal effort against cigarette smuggling. ATF's presence has been an essential element in forestalling growth in smuggling at a time when significant growth in this illicit activity could be expected to occur.

Because of the ATF presence, cigarette smuggling was kept in check despite the business recession and higher cigarette tax rates. These are conditions which promote cigarette smuggling; yet in 1982-83, as a result of effective enforcement, major cigarette tax evasion violations occurred in only a small number of states. Nevertheless, these incidents indicated how quickly cigarette smuggling could again become a national problem if the federal government abandoned its responsibility to enforce P.L.95-575.

In New York alone, within a year, state and local governments would have lost many times the ATF appropriation for cigarette enforcement if New York and federal authoritites had not been able to combine to apprehend and convict a major cigarette tax violator. Within a few weeks, the potential loss from this operation involving the interstate transportation of cigarettes and counterfeit stamps approximated $1 million.

In Ohio, in 1982, authorities discovered two cigarette smuggling operations which accounted for a state revenue loss of more than $250,000. In Massachusetts, in 1983, a single smuggling discovery involved a state revenue loss of more than $130,000. In 1982-83, there were also smaller smuggling discoveries in, among other states, California, Connecticut, Illinois, Michigan, New Jersey, Tennessee, West Virginia, Wisconsin and Washington. Throughout the country, smuggling has been discovered and smugglers convicted through the combined efforts of state authorities and the Bureau of Alcohol, Tobacco and Firearms.

The point that must be stressed in evaluating state and ATF cigarette enforcement efforts last year is that, without state-federal cooperation, undiscovered smuggling would have caused a constant drain on state revenues. In cigarette smuggling, the illicit operator's success provides a powerful stimulus for him to expand his own operations and for others to join him. The states' experience in the 1960's and 1970's showed that once markets were established for smuggled cigarettes, these operations spread with amazing rapidity.

Before the enactment of the federal cigarette contraband law in 1978, the Advisory Commission on Intergovernmental Relations estimated the annual state revenue loss from cigarette tax evasion at $400 million. If smugglers had no need to fear federal enforcement and prosecution, the former level of cigarette tax evasion could be reached and exceeded very quickly.

Cigarette Smuggling--A National Problem

In the testimony presented to this Subcommittee last year, NTTA stressed several reasons why state-federal accomplishments in the effort against smuggling could be lost without an ATF appropriation for this purpose. There have been a number of developments which have made these reasons even more relevant this year than last, and with the Subcommittee's permission, NTTA wishes to briefly point out the following:

Because the states, like the federal government, have great need for added revenue, nine states raised their cigarette tax rates in 1982 and an additional number will raise their rates this year. The profit motive for smuggling is much greater now than it was in 1978, when P.L.95-575 was passed. The National Association of Tax Administrators in its presentation this afternoon will discuss why, as a result of rising cigarette tax rates, the potential profits from cigarette smuggling, always large, are now much greater than ever before.

If, at this point, the federal budget were to make no provision for the enforcement of P.L.95-575, it would be an open invitation for smugglers to return to their former operations and to enjoy huge illicit profits with little concern over the possibility of discovery. This would occur because the states' jurisdiction to deal with cigarette tax evaders ends at state lines, and the removal of federal enforcement authority would be a signal to the bootleggers that the conditions in which they were able to operate so easily in the 1960's and 1970's had been restored.

Moreover, bootleggers can return to their illicit activities with little notice. They require only a rented truck, a driver, and enough capital to purchase cigarettes in low tax states. Also, there is concern that organized crime may bypass the need for capital by resorting to hijacking as a means providing a cost-free source of supply for bootleg cigarettes. The doubling of the federal cigarette tax rate has provided a strong incentive in this regard.

The deletion of ATF's appropriation for cigarette law enforcement would suggest that cigarette smuggling is a resolved or nearly resolved matter. In actual fact, as this testimony has sought to show, there may be a greater current need for the effective implementation of P.L.95-575 than at any time since the immediate period following the enactment of that law.

Again, I express NTTA's thanks for the consideration this Committee has given the state tax agencies' concerns in the past and for the opportunity to discuss this important state matter with the Committee.

INTERNAL REVENUE SERVICE

STATEMENT OF DAVID AFFELDT, AMERICAN ASSOCIATION OF RETIRED PERSONS

ACCOMPANIED BY WILLIAM CANUP, SENIOR SPECIALIST FOR THE TAX AID FOR THE ELDERLY PROGRAM, AARP

Senator ABDNOR. Our next witnesses will be on the subject of the Internal Revenue Service.

We have people from the American Association of Retired Persons.

Our witness is Mr. Dave Affeldt. We welcome you and your colleagues to the committee.

You've heard us say that we do have a considerable ways to go. If you have a longer statement than your time gives you, rest assured that we'll put the entire written statement into the record. I would just ask you to summarize. If you want to, you can introduce your colleague with you and proceed.

Mr. AFFELDT. Thank you, Senator. We shall stay within the 5 minute rule.

On my right is Bill Canup, who is a senior specialist for the tax aid for the elderly program.

AARP has basically two proposals to offer the subcommittee. First, we recommend that the subcommittee approve at a minimum the $300,000 supplemental appropriation for the tax counseling for the elderly program which would raise the funding in fiscal year 1983 from $1 million to $1.3 million.

This is the same amount as approved by the Senate Appropriations Committee and also this subcommittee in the fiscal year 1983 Treasury, Postal Service and General Government appropriations bill.

$300,000 increase is needed for TCE because IRS stepped up its public service spots about TCE in anticipation of reductions in its own services. In fact, the actual need may turn out to be about $500,000. We shall keep the staff informed about what the actual needs are.

This created greater consumer awareness and generated an upsurge in TCE activity even though much of IRS funding was later restored.

Funding is needed in fiscal year 1983 even at this late date to insure reimbursement for the increased number of volunteers. There's been about a $2,000 increase in tax aid alone, the AARP program. The clause permitting retroactive reimbursement along the lines adopted in the Supplemental Appropriations and Recision Act, Public Law 97-12, is necessary so that all volunteers can be reimbursed as promised.

AARP believes that reimbursement is vital for TCE because it enables volunteers to serve elderly shut-ins at home and in institutions. Moreover, reimbursement makes it possible for the volunteers to reach out to rural communities and constituency groups such as minorities who might not otherwise be served.

Many older volunteers, a large portion of whom have limited incomes, will not be reimbursed, or at a lower rate if this $300,000 minimum supplemental request is not approved. They reasonably expect it to be reimbursed, and we believe that they should be.

AARP and other organizations have already made major contributions so that tax preparation services can be more readily available for older Americans.

If we are forced to use any more of our overcommitted resources, our ability to carry out tax aid for the elderly will be impaired, which will almost assuredly cause a reduction in future services.

Second, we urge that funding for the tax counseling for the elderly program be increased to $2 million in fiscal year 1984. This may appear to be a large percentage increase compared with the existing funding level. However, it is a modest hike which is both clearly warranted and cost effective.

During the past 2 years, Congress has enacted two major laws which have greatly changed the tax rules for older Americans and younger taxpayers.

The 1981 Economic Recovery Tax Act and the 1982 Tax Equity and Fiscal Responsibility Act made far-reaching changes which I know you are fully aware of.

I won't touch upon them, but one such example was the increase in the capital gains exclusion for homeowners from $100,000 to $125,000 for those who are 55 or older, and many others as well.

These and other changes have substantially altered the landscape in the internal revenue code, and they have greatly increased the demand for TCE services.

AARP is personally pleased that the administration has requested $1 million for TCE for fiscal year 1984. But we strongly believe that $2 million is absolutely essential given the past track record and likely increase in demand for tax services by the elderly in 1984 and beyond.

We are convinced beyond any doubt that this small appropriation will produce additional revenue for the Treasury far beyond the $2 million expenditure.

TCE's history demonstrates that volunteer tax consultants can improve taxpayer compliance. This not only assures that taxpayers pay what is lawfully due the Government, but it also reduces IRS administrative costs.

This takes on added importance, since the Federal Government loses billions of dollars each year because of cheating. Our budget deficit could, of course, be reduced substantially if all persons reported their income fully.

There is also another side of the coin. IRS has stressed over the years that no taxpayer should pay more than is legally required. Our experience with tax aid makes it abundantly clear that numerous elderly persons overpay their taxes each year or file when not required to do so for a variety of reasons. Some are confused by the tax form. Others are unaware of available deductions, credits and exemptions. And we have assisted those who have sought our help. We have filed amended returns that claim deductions that taxpayers overlook. And we have conducted thorough interviews to insure that the elderly claim applicable tax benefits, and have checked numerous returns for accuracy.

Now, in summary, I would like to say that we reaffirm our support for a minimum $300,000 supplemental for TCE in 1983 and a $2 million funding level for fiscal year 1984. TCE has been beneficial for our Nation, the IRS, and the elderly. It has greatly increased taxpayer awareness in compliance, and has provided specialized services for groups traditionally underserved by IRS, including minorities, the homebound, and the rural aged, and it has helped IRS by making services available that the agency may not be able to provide because of budgetary constraints.

One final point that I'd like to make is that we appreciate the fairness and the understanding that the program has received from this subcommittee. We've always felt that we had a fair day in court, and you have been very reasonable in your appropriations for the program.

Thank you very much.

PREPARED STATEMENT

Senator ABDNOR. We appreciate your kind words.

No one can dispute much of the testimony that you gave in your summary here. As I said, your whole statement has been made a part of the record.

[The statement follows:]

Statement of the National Association of Retired Persons

The American Association of Retired Persons appreciates the opportunity to testify before the Treasury, Postal Service, and General Government Subcommittee.

Our remarks will be brief because your time is limited.

AARP has two proposals to offer the Subcommittee:

A. FY 1983 Supplemental For Tax Counseling for the Elderly

First, AARP recommends that the Subcommittee approve a $300,000 supplemental appropriation for the Tax Counseling for the Elderly (TCE) program, raising the funding in fiscal year 1983 from $1 million to $1.3 million. This is the same amount as approved by the Senate Appropriations Committee in the FY 1983 Treasury, Postal Service, and General Government Appropriations bill.

A $300,000 increase is needed for TCE because the Tax Equity and Fiscal Responsibility Act (Public Law 97-248) imposed new withholding requirements on interest and dividends. Exceptions, however, are provided for elderly taxpayers with limited tax liability.

This change has raised many questions among the elderly and has greatly increased the workload for AARP's Tax-Aide program as well as other TCE programs.

TCE has been in great demand this year in many localities because IRS stepped up its public service spots about TCE in anticipation of reductions in its own services. This created greater consumer awareness and generated an upsurge in TCE activity, even though much of IRS' funding was restored.

Funding is needed for FY 1983 -- even at this late date -- to insure reimbursement for the increased number of volunteers. A clause permitting retroactive reimbursement -- along the lines adopted in the Supplemental Appropriations and Recession Act, Public Law 97-12 -- is necessary so that all volunteers can be reimbursed as promised.

AARP believes that reimbursement is vital for TCE because it enables volunteers to serve elderly shut-ins at home and in institutions. Moreover, reimbursement makes it possible for TCE volunteers to reach out to rural communities and constituency groups -- such as minorities -- who might not otherwise be served.

It is crucial that this supplemental request for TCE be approved now. TCE programs were heavily committed and already structured in autumn 1982 for the 1983 tax season. In addition, there was increased demand this year because many older persons were referred to TCE by IRS. Further, the Tax Equity and Fiscal Responsibility Act imposed new wrinkles in the tax law. These changes increased the complexity of the elderly's tax filing requirements at a time when the cost of professional tax preparation services was rising.

Many older volunteers -- a large proportion of whom have more limited incomes -- will not be reimbursed or at a lower rate if the $300,000 supplemental request is not approved. They reasonably expected to be reimbursed, and we believe they should be. AARP and other private organizations have already made major contributions so tax preparation services can be more readily available for older Americans. If we are forced to use any more of our overcommitted resources, our ability to carry on Tax-Aide for the elderly will be impaired, which will almost assuredly cause a reduction in future services.

B. FY 1984 Appropriation for TCE

Second, we urge that funding for TCE be increased to $2 million in FY 1984.

This may appear to be a large percentage increase compared with the existing funding level. However, it is a modest hike which is both clearly warranted and cost effective.

During the past two years, Congress has enacted two major laws which have greatly changed the tax rules for older Americans and younger taxpayers.

The 1981 Economic Recovery Tax Act and the 1982 Tax Equity and Fiscal Responsibility Act made far-reaching changes, including:

-- Shifting policies governing exclusions for interest and/or dividends;

-- Raising the adjusted gross income floor for deducting medical expenses in 1983 and terminating the separate deduction for one-half of medical insurance premiums up to $150;

-- Boosting the capital gain exclusion from $100,000 to $125,000 for taxpayers 55 or older who sell their personal residences;

-- Introducing automatic withholding from interest and dividend income and from pensions, with complicated rules for receiving exemptions from this withholding;

-- Allowing taxpayers to reinvest their dividends from public utility stock in additional public utility stock up to $750 for individuals and $1,500 for couples filing jointly;

-- Allowing employees covered by private pensions plans to contribute to Individual Retirement Accounts; and

-- Increasing the maximum allowable deduction for Keogh retirement plans for the self-employed.

These and many other changes have substantially altered the landscape of the Internal Revenue Code. And, they have greatly increased the demand for TCE services.

AARP is pleased that the Administration has requested $1 million for TCE for FY 1984. But, we strongly believe that $2 million is absolutely essential, given the past track record and the likely increased demand for tax services by the elderly in 1984 and beyond. We are convinced beyond any doubt that this small appropriation will produce additional revenue for the Treasury far beyond the $2 million expenditure.

TCE's history demonstrates that volunteer tax consultants can improve taxpayer compliance. This not only assures that taxpayers pay what is lawfully due the government, but it also reduces IRS' administrative costs.

This takes on added importance since the federal government loses billions of dollars each year because of cheating. Our budget deficit, of course, could be reduced substantially if all persons reported their income fully.

There is also another side to this coin. IRS has stressed over the years that no taxpayer should pay more tax than legally required. Our experience with the Tax-Aide program makes it abundantly clear that numerous elderly persons overpay their taxes each year or file when not required to do so, for a variety of reasons. Some are confused by the tax forms. Others are unaware of available deductions, credits and exemptions. We have assisted those who sought our help. We have filed amended returns to claim deductions that taxpayers overlooked. We have conducted thorough interviews to insure that the elderly claim applicable tax benefits and have checked numerous returns for accuracy.

This service is provided without "taking business away" from professional preparers. Almost all of Tax-Aide clients have moderate or limited income. But, they oftentimes have complicated tax situations -- at least from their perspective. In most cases, professional tax consultants would be required to devote considerable time to prepare a return for a comparatively small fee. This is one important reason that numerous professional preparers actually refer clients -- particularly those with limited income -- to Tax-Aide or other TCE programs.

TCE is also vitally important for IRS because its taxpayer service capabilities are limited by budgetary constraints. In addition, TCE volunteer instructors can build upon IRS training activities to insure more intensive and comprehensive instruction than IRS can provide. Our

Tax-Aide program typically includes a five-day block of instruction to train tax counselors. This permits our volunteer counselors to receive more in-depth instruction and knowledge of the tax code. The record shows that this additional effort pays off by making our tax counselors more accurate and efficient.

Finally, older Americans benefit from TCE, particularly those who need assistance but cannot afford to pay a preparer. Competent volunteer tax counselors can help prepare accurate returns for these individuals. This is vitally important because older Americans are frequently exposed to new and complex rules upon reaching retirement age. Elderly widows perhaps experience the most serious problems because they typically have little or no experience in preparing a tax return. The net impact is that the tax form can be like a complex labyrinth for older persons. Tax counseling assistance, though, can help older Americans to cut through this maze. It can also help them to comply with the tax law while claiming every allowable benefit.

C. Conclusion

For these reasons we reaffirm our support for a $300,000 supplemental for TCE in FY 1983 and a $2 million funding level in FY 1984.

TCE has been beneficial for our Nation, the IRS, and the elderly.

It has increased taxpayer accuracy and compliance.

It has provided specialized services for groups traditionally underserved by IRS, including minorities, the homebound, and the rural aged.

And, it has helped IRS by making services available that the agency may not be able to provide because of budgetary constraints.

Senator ABDNOR. Sometimes it's difficult to find the dollars, but we hear that from the IRS. They tell us we give them more people, they'll raise more dollars, too.

This may seem like a very strange question coming from me, as I'm supposed to know, but have you been told, or do you have any reason to think that a $300,000 supplement might be forthcoming from downtown, or from the administration?

Mr. AFFELDT. From the administration? We have not heard that they are going to be making such a request at this point. We have had much greater demand because of IRS advertising more our services, and the result has been that we have incurred much greater expenses in terms of reimbursing our tax consultants.

Senator ABDNOR. The $300,000, that's what it mostly would be for, reimbursements?

Mr. AFFELDT. That's right. This would be designed to cover out of pocket expenses that our tax consultants have incurred.

We also want to stress that this is the same funding level that the subcommittee and the full committee approved in fiscal year 1983, because it was not possible to obtain enactment of the fiscal year 1983 Treasury, Postal Service and General Government appropriations, a continuing resolution was necessary. And in the continuing resolution, it was the lower the House or the Senate figures. The House had approved a $1 million funding level.

Senator ABDNOR. Well, in the event the $300,000 didn't come about, that means some of your people who have assisted in the making up of tax returns would just lose it out of pocket, is that what would actually happen?

Mr. AFFELDT. What would happen, basically, is that some of them would not receive reimbursement, or the reimbursement would be lower.

Mr. Canup may want to add something here.

Mr. CANUP. Our commitment, Mr. Chairman, is to reimburse the expenses of, first of all, our coordinators, district, overall and local coordinators that administer the program in the various States; we are also committed to reimbursing the expenses of our instructors, and the number of instructors this year is up considerably at our will and also at the request of the IRS, to relieve them of a portion of the instructing responsibility each year.

So we've developed that corps of instructors. We also have a commitment to the volunteers to reimburse their out of pocket expenses according to two formulas. They can take a flat rate, opt for a flat rate of $32 for the entire season to defer their expenses, or they can itemize expenses if they have incurred more than that in visiting out of the way places, and shut-ins, for examples, or in going some distance to take the tax training.

Senator ABDNOR. How far is this $32, you say $32?

Mr. CANUP. Yes, $32, for each volunteer. That is the flat rate for the volunteers. And this is the rate that most volunteers opt for but not all.

Senator Abdnor. Are most of these people well versed in the tax?

Mr. Canup. They are, yes. Most of them have volunteered more than 1 year. Some have volunteered as many as 8 to 10 years, we're finding now. They are trained each year by IRS and or tax aid volunteer instructors, at the instruction courses. They are given 3 to 6 days training. They pass a TCE, tax counseling for the elderly, test, and they are well qualified. Many of them have tax backgrounds, such as certified public accountant, or IRS retirees, and they are able to help with more complicated returns.

Senator Abdnor. How many people do you think you have doing this at $1 million?

Mr. Canup. This year we have listed, and we register them on our computer, 15,000 counselors, up 2,000 counselors from last year. We're just up to the 15,000 mark.

Plus, the 2,725 people in another list who are the coordinators, and the instructors, and these are what we call the leadership, making a total of 17,725.

Senator Abdnor. They're out in every State in the Union?

Mr. Canup. In every State. Yes; we have a coast-to-coast program.

Mr. Affeldt. And they've prepared about 1.25 million returns, and it's conceivable that when the final estimates come in that will be up to about 1.35 million returns.

Mr. Canup. It could go that high, yes.

Senator Abdnor. Would the $2 million level just be fair with those working, or would that put more people into the field, or what?

Mr. Canup. The $2 million level for next year would allow for expansion of the program. Without that, the program expansion might very well have to be curtailed.

The $2 million is for next year. The $300,000 additional for us is the request for this supplemental for $83.

Mr. Affeldt. I might also add something about the $2 million funding level. We've been talking with staff on the House side, with the staff person for Congressman Roybal who is your counterpart, and he is fully sympathetic to taking some action to bolster the funding for the program.

Because as we mentioned before, the tax laws have become immensely more complicated, and this has greatly increased the demand. And I can speak from a personal standpoint on this because I do some tax returns on my own, not in connection with the program, but as a private preparer.

People are very much confused by the changes in the past 2 years.

Senator Abdnor. Gentlemen, we thank you very, very much. We better keep rolling along, or it's going to be later than we think.

We thank you for coming and we'll certainly give it our utmost consideration.

Mr. Affeldt. Thank you, Mr. Chairman.

Mr. Cannup. Thank you very much, Mr. Chairman.

Senator Abdnor. Our next witnesses are from the National Treasury Employees Union. I'll just ask you gentlemen to introduce yourselves so we can have it for the record.

STATEMENT OF PATRICK SMITH, LEGISLATIVE STAFF, NATIONAL TREASURY EMPLOYEES UNION

ACCOMPANIED BY:
PAUL SUPLIZIO, CONSULTANT TO NTEU
WILLIAM SAMUEL, LEGISLATIVE STAFF, NTEU

Mr. SMITH. Mr. Chairman, my name is Patrick Smith, and I'm an attorney with the legislative staff of the National Treasury Employees Union.

With me today is Bill Samuel who is also on our legislative staff. He'll speak about Customs, and to my right is Paul Suplizio, who is a consultant to our organization.

Our union is the exclusive representative of approximately 120,000 Federal workers, including virtually all employees of the IRS. On behalf of the thousands of dedicated men and women who collect the revenue of the Federal Government, I appreciate this opportunity to express our union's views on the administration's budget request for IRS for fiscal year 1984.

First of all, Mr. Chairman, I'd like to discuss the administration's proposal to once again eliminate toll free tax law assistance. As this subcommittee is well aware, Congress decisively rejected this proposal when it was submitted as part of the 1983 budget request.

Most IRS employees refer to this proposal as the H&R Block assistance act. And we believe it serves no valid purpose whatsoever.

Millions of people rely on this service to aid them in complying with the tax loss, and we urge the subcommittee to retain this service.

The most important problem facing our tax system today is the decline in voluntary compliance that is costing the Treasury enormous sums which could be used to reduce the Federal deficit.

IRS has estimated the size of the tax compliance gap on legally earned income to be $87 billion in 1981. Last year, Congress took two decisive steps to deal with this problem. First, it passed TEFRA, the Tax Equity and Fiscal Responsibility Act, and second, it increased the Collections Division of IRS staffing by 3,300 positions to collect past due accounts.

However, these increases did nothing more than replace the positions which were eliminated in fiscal year 1982.

Every year more and more taxpayers are playing audit lottery. The percentage of audit coverage will decline to 1.5 percent in fiscal year 1984. The committee must move to increase audit coverage and the only way to do this is to increase the appropriations for examination.

Given the overwhelming evidence of sharply declining compliance and its ruinous impact on the tax system, to complacently accept the 1.5 percent examination rate recommended by the administration would be a blueprint for disaster. It would assure a continuing decline in compliance at the critical moment when we should be moving decisively to prevent any further bandwagon effect among honest taxpayers.

The longer we wait, the greater the danger that public attitudes will have shifted permanently, and our ability to regain the 90-percent compliance level of the past may become impossible.

Finally, Mr. Chairman, I want to stress our union's opposition to the proposed reorganization of the California Internal Revenue Districts from the present two to five. At this time we have not seen any evidence to substantiate such a major reorganization which will have tremendous effects on both the taxpayers and IRS employees throughout California.

IRS is planning to have these new districts in place prior to the start of the 1984 fiscal year. We strongly urge this committee to allow such a move only with the approval of this committee and its companion committee in the House.

PREPARED STATEMENT

Thank you, Mr. Chairman. That completes my statement. Mr. Samuel will now address the Customs Service.

[The statement follows:]

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT, AND JERRY D. KLEPNER, DIRECTOR OF LEGISLATION, NATIONAL TREASURY EMPLOYEES UNION

I am Vincent L. Connery, National President of the National Treasury Employees Union. Accompanying me is Jerry D. Klepner, NTEU Director of Legislation. Our union is the exclusive representative of approximately 120,000 Federal workers, including virtually all employees of the Internal Revenue Service (IRS).

On behalf of the thousands of dedicated men and woman who collect the revenue of the Federal government, I appreciate this opportunity to express our union's views on the Administration's budget request for IRS for Fiscal Year (FY) 1984.

Last year, IRS employees were responsible for collecting $634 billion, or 90 percent of the revenues needed to sustain our national defense and to operate the Federal government. The cost of collecting $100 of revenue was only 42 cents, a figure that is 25 percent lower than six years ago. This is dramatic testimony to the efficiency of the employees who administer our nation's tax laws, yet who are themselves constantly maligned by the Reagan Administration.

The paramount challenge confronting our tax system today is to stem the decline in voluntary compliance that is costing the treasury enormous sums that could be used to reduce the Federal deficit. IRS has estimated the size of the tax compliance gap on legally earned income to be $87 billion in 1981. This amount represents the difference between taxes legally owed and taxes actually paid. If it were collected, the current services budget deficit of $249 billion in FY 1984 could be reduced by over one-third.

Moreover, the tax gap is projected to grow to $120 billion by 1985, producing a five-year cumulative loss of $500 billion. This amount represents about 25 percent of corporate and individual taxes legally owed to the government. Not only is this a huge windfall for those who are escaping their tax liability, but it greatly increases the burden on the rest of society and undermines public confidence in the tax system. Table 1 and Chart 1 summarize the most recent IRS data on the tax gap.

IRS employees, who are in day-to-day contact with the taxpayers, have expressed growing concern that voluntary compliance is being eroded by the perception that everyone is not paying his/her fair share. We point to the growing underground economy, widespread use of abusive tax shelters, the willingness of a large number of taxpayers to play the "audit lottery", and over 2 million citizens who do not even bother to file a tax return. In the words of the General Accounting Office (GAO):

> "There is a trend toward contempt and abuse of the system which seriously undermines the basic concept of voluntary compliance on which the system depends. Extensive evidence is available to show that noncompliance among both corporate and individual taxpayers is a serious problem and is getting worse."

Without a doubt, the lack of adequate enforcement resources is a major cause of the growing tax compliance gap we face today.

Last year, the Congress took two decisive actions to deal with this situation. First, it passed the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) which gave IRS additional tools for dealing with abusive tax shelters and underreporting of income. Among these tools were legal authority to enjoin purveyors of these tax shelters, penalties for understatement of income, information reporting requirements for commodities and securities brokers, and ten percent withholding of interest and dividend income. Over 115 million additional information returns will be generated in FY 1984 by the information reporting requirements of this bill alone. Congress must now ensure that adequate resources are provided to process the new returns, contact taxpayers in the event of discrepancies, and follow up on non-filing and underreporting leads. Failure to do so would jeopardize the additional $9.6 billion in revenue anticipated from the compliance provisions of the bill.

Second, with this Subcommittee in the lead, Congress decisively rejected the Administration's proposal to eliminate most walk-in and toll-free telephone assistance to taxpayers. The restoration of 1,700 positions for Taxpayer Service, coupled with an increase of 3,300 positions principally to collect past-due taxes, brought to a total of 5,000 the number of additional positions funded in the current fiscal year. However, as this

Subcommittee is aware, IRS had been cut 3,300 positions the previous year (FY 1982) and was also required to absorb 1,050 positions needed to implement the Crude Oil Windfall Profit Tax Act. In effect, the new positions in FY 1983 were mainly a recovery of ground lost in the woefully inadequate budget of FY 1982.

It is against this background that we would like to evaluate the Administration's budget request for IRS for FY 1984. This budget is for $3.3 billion and 91,761 average positions, an increase of $248 million and 1,400 positions over the level of the FY 1983 Continuing Resolution. While the budget makes modest increases in some IRS functions for improved enforcement and implementation of TEFRA, these staffing additions are for the most part offset by various "productivity gains" and another large cut in Taxpayer Service -- this time to eliminate toll-free telephone service during the tax-filing season for 20 million taxpayers. The net 1,400 position increase is a mere 1.5 percent over the resource level of the current fiscal year. This is essentially a stand-pat budget.

One would have thought that a prudent Administration, confronted with the largest peacetime deficits in history, and the existence of an enormous tax gap, would have chosen a budget strategy that would greatly strengthen the capability of its revenue-producing arm. GAO has pointed out that IRS compliance programs have an average return over cost of anywhere from 5-1 to 20-1. By significantly increasing resources for these programs, the Administration could have reinforced efforts to shrink the tax gap while substantially reducing the Federal deficit.

Moreover, the inadequate budgets of the past few years have plunged the tax administration system to its lowest levels of performance in history. In the current fiscal year, IRS will examine 400,000 fewer returns than in FY 1981, a decline of 20 percent in just three years. As a result, audit coverage of the taxpayer population will fall from 1.84 to 1.53 percent, the seventh straight year of decline.

If the Administration's budget proposal is approved without additional resources, audit coverage will continue to decline to 1.50 percent in FY 1984. It is this minimal IRS enforcement presence that is the root cause of many taxpayers' willingness to play "audit roulette", with a consequent loss of large revenues to the government. IRS will collect $2 billion less in FY 1983 than in FY 1982 from examinations and corrections of taxpayers' returns, and will lose another $.6 billion in FY 1984 under the Administration's budget.

Other indicators of our tax system's health are equally dismal. The backlog of taxpayer cases in Appeals will rise from 49,000 in FY 1982 to 54,000 in the current fiscal year, and will still be more than 51,000 by the end of FY 1984. The number of Service Center contacts with taxpayers to correct discrepancies on their returns, a program that yields $300 million annually, will fall from 814,000 in FY 1981 to 782,000 in FY 1984.

In addition, the number of taxpayer delinquent accounts, which represent taxes and penalties owed but not collected, will rise to 2,086,000 in the current fiscal year -- the highest level on record -- and will stay at essentially the same level in FY 1984. The amount of revenue in the active inventory of delinquent accounts will also reach a new record of $7.1 billion in FY 1983 and $7 billion at the end of FY 1984. The backlog of active taxpayer delinquent return investigations, directed at securing the returns of non-filers, will rise to 900,000 at the end of 1984, a 40 percent increase in just three years.

Another important sign that resources are not being provided to close the tax gap is the fact that the information returns program, which generates unreported income and non-filer leads through document-matching, has been producing 9.4 million leads a year, yet the IRS has been able to follow up on only a third of these. The resulting revenue loss to the government is estimated at $100 million a year. This was before the enactment of TEFRA, which will undoubtedly produce another half-million leads a year from the 115 million new information returns to be submitted.

The Administration cannot be oblivious of these facts. Nor can it evade its responsibility by failing to propose a budget to remedy the present sorry state of tax administration in this country. Certainly, a 1.5 percent increase in staff-years is totally inadequate to the challenge IRS faces in closing the tax gap. These resources are barely adequate to handle the new responsibilities imposed by the enactment of TEFRA. The proposed cut in Taxpayer Service would also be counterproductive, as voluntary compliance depends on the ability of taxpayers to obtain assistance in dealing with an increasingly complex tax code.

Since the Administration has failed to submit a realistic budget, we believe the time has come for Congress to enact a comprehensive plan which, over a period of years, will provide IRS with the resources needed to close the tax compliance gap and recoup the revenues that are urgently needed to reduce the Federal budget deficit. Congress has itself called for launching such an effort. In enacting the Tax Equity and Fiscal Responsibility Act last year, Congress included a provision that states as follows:

> SEC. 352. SENSE OF CONGRESS WITH RESPECT TO PROVIDING OF ADDITIONAL FUNDS TO INTERNAL REVENUE SERVICE
>
> It is the sense of the Congress that there be appropriated for the use of the Internal Revenue Service to provide additional staff--
>
> (1) for fiscal year 1983, the amounts proposed in the President's budget for fiscal year 1983, and
>
> (2) such amounts in excess of the amount requested for such purpose in the President's proposed budgets as may be necessary to provide sufficient improved enforcement to increase revenues by $1 billion in fiscal year 1984 and $2 billion in fiscal year 1985.

We believe this to be a clear mandate for additional appropriations "to provide sufficient improved enforcement" and "to increase revenues" so that the progress made in enacting the compliance provisions of TEFRA would not be halted. This call is addressed, first and foremost, to the members of this Subcommittee where the work must begin.

In order to assist the Subcommittee, NTEU has prepared an alternative budget which we believe responds to the paramount needs of our tax compliance system, and is based on a sound strategy for fostering increased voluntary compliance while maximizing the revenue yield to the Federal government. Our proposal takes into consideration these essential facts:

-- First, because it is responsible for collecting taxes in a nation of 250 million citizens, the increased resources needed to have a sufficient impact on the compliance problem cannot be on the order of 1 or 2 percent, but must be significantly higher. The minimum additional resource, should be 5,000 staff-years (average positions) and $100 million.

-- Second, according to the GAO, the average yield-to-cost ratios for IRS' principle compliance programs, that is, the additional dollars of revenue produced for an additional dollar spent on the program, are as follows:

Examination	$10.2
Collection	$19.5
Delinquency Investigations (Securing returns of non-filers)	$15.6
Document matching (Information Returns Program)	$ 8.3

The size of the tax gap ($87 billion in lost taxes and $400 billion in untaxed income), the growing backlog of enforcement cases, the continuing decline in audit coverage, and IRS' inability to follow up on a sufficient percentage of the leads it generates, are evidence that the marginal yield for an additional dollar committed to these programs will be about the same as the average yield.

-- Third, three-fourths of the tax compliance gap consists of unreported income on filed returns. Evidence shows that audits are able to detect only about one-quarter of this unreported income. IRS needs to greatly strengthen its principle tool for attacking this problem, the Information Returns Program.

-- Fourth, the drop in voluntary compliance in recent years has been associated with the continuing decline in audit coverage of the nation's taxpayers. The problem is compounded by the fact that, due to the increased complexity of the tax laws, audits are taking longer to complete; thus, fewer can be performed with the available examination resources. We believe the minimum level of audit coverage required to help deter non-compliance by assuring a sufficient IRS enforcement presence is 2 percent. Even with this coverage, large numbers of returns that show indications of understatement of tax liability will not be audited due to insufficient resources.

We would now like to briefly summarize the NTEU alternative budget, which will be discussed in greater detail in the next part of our statement. NTEU recommends a budget of $3,585,531,000 and 101,361 average positions for IRS in FY 1984, an increase of $294 million and 9,600 positions over the Administration's budget request. This amount would be allocated as follows:

The sum of $176 million and 5,000 average positions would be added to Examination and Appeals to permit audits of 252,000 additional taxpayers and raise audit coverage from 1.50 to 1.75 percent. The revenue yield of the NTEU recommendation would be $1.8 billion in additional taxes and penalties assessed in FY 1984. Under the NTEU program, an audit coverage of 2 percent would be achieved through an additional 6,000 average positions in FY 1985. It is evident that audit coverage has already fallen to such a low level that it would be impossible to recover the lost ground in a single year.

The sum of $32 million and 1,200 average positions would be added to Collection to permit closing 221,000 additional taxpayer delinquent accounts and to secure additional delinquent returns of non-filers. The revenue yield would be $646 million in FY 1984, and our recommendation would lead to the first significant reduction in the delinquent inventory in eight years.

The sum of $38 million and 1,500 average positions would be added to Taxpayer Service to enhance voluntary compliance by permitting toll-free telephone, walk-in, and correspondence assistance to 22 million additional taxpayers, or 7 out of 10 taxpayers requesting assistance. This recommendation would restore the cut of $25 million and 991 average positions in Taxpayer

Service proposed by the Administration, and would provide an additional $13 million so that the goal of serving 7 out of 10 taxpayers requesting assistance can be attained.

The sum of $40 million and 1,600 average positions would be added to the Information Returns Program, to permit processing of 100 percent of the paper documents received, to increase the percentage of unreported income and non-filer leads acted upon, and to yield net additional revenue of $188 million. At the present time, about 78 million information documents received by IRS are not matched for various reasons, including inadequate resources for processing paper documents into the system. The number of paper documents received during FY 1982 was 82 million, and only 21 percent of these were matched. NTEU's recommendation would permit a phased expansion of the Information Returns Program to allow IRS to generate and follow up on a larger number of unreported income and non-filer leads. Today, about 6 million leads a year are not followed up, with a consequent revenue loss of at least $100 million. The amount recommended for the Information Returns Program would be distributed among Returns Processing, Examination, and Collection divisions of IRS, as each of these divisions participate in the operation of the program.

Lastly, $7.7 million and 300 average positions would be added to the Returns Correction Program conducted by IRS Service Centers, in which taxpayers are contacted about apparent discrepancies in their returns. These taxpayer contacts enhance voluntary compliance by helping to maintain an IRS presence in the community, while generating revenue of $300 million. Under the Administration's proposal, these contacts would fall from 814,000 in FY 1981 to 782,000 in FY 1984. We believe that, if anything, the number of these contacts should be increased, especially in view of the low level of audit coverage IRS is able to sustain. NTEU's recommendation would permit contact with 100,000 additional taxpayers, resulting in $38 million in additional revenue.

NTEU's alternative budget is summarized in Table 2, appended to our statement. The additional revenue yield from NTEU's recommendations is summarized in Table 3.

In sum, NTEU's alternative budget would yield a total of $2,672,000,000 in FY 1984, and a total of $13,360,000,000 over the 1984-1988 time frame. In FY 1984, there would be a net return of $2.3 billion over the approximately $300 million cost of the program.

Even with this accomplishment, a large tax gap will remain. The conditions that created this gap have been developing for over a decade, and it will take at least that long to bring the problem under control. The important thing is for this Subcommittee to take the first step in carrying out the express intent of Congress by appropriating substantial additional resources for IRS so that the momentum begun last year can be maintained. We strongly urge the Subcommittee to adopt the NTEU alternative budget for IRS, and to reject the Administration's lame proposal.

We would also like to urge the Subcommittee to consider the conclusions of a GAO study entitled "Further Research Into Noncompliance Is Needed To Reduce Growing Tax Losses" (GGD 82-34, July 23, 1982). The study called attention to the seriousness of the compliance problem and the inadequacy of IRS compliance resources. It stated:

> "Although the reasons for deteriorating taxpayer compliance are unclear, it is clear that IRS needs additional resources to respond effectively to its growing demands. . . .
>
> What the appropriate level of these compliance resources should be is a difficult question and one we cannot specifically answer. . . . We do know, however, that additional resources in some programs are needed to keep pace with the growing demands and . . . . additional resources will result in *a large and immediate flow* of tax revenue to the Treasury. These resources are not only justified by the increasing workload and potential revenue gains, but -- and this is equally or more important -- the need to cope with the general problem of decreasing compliance." (Italics supplied.)

In the remainder of our testimony, we would like to present a more detailed justification of our budget proposals, as well as some of the major factors affecting performance in the critical functions of Examination and Appeals, Collection, Taxpayer Service, and Returns Processing.

Examination and Appeals

Examination and Appeals must be the cornerstone of any strategy for achieving a higher degree of voluntary compliance with the tax laws. The willingness of taxpayers to file tax returns and correctly assess their tax liability is influenced by the perception that those who do not comply voluntarily will be audited and have their liability assessed by the government.

The drop in voluntary compliance in recent years has been associated with declining audit coverage that has led many taxpayers to gamble that they will not be audited. Their success in cheating and getting away with it has naturally stimulated a "ripple effect" among taxpayers at large. This is reflected in a public opinion survey conducted by the Roper organization in 1980, which showed that over half of those polled believed that "fairly many people cheat in some ways on their income taxes."

The spread of abusive tax shelters and the rise of some tax protest groups has added a further dimension to the compliance problem. At the end of FY 1982, IRS had 285,000 tax shelter returns under examination, an increase of 36,000 returns over the prior year. IRS estimates that abusive tax shelters cost the government about $4 billion annually in lost revenue. During FY 1982, IRS recovered through examinations about $1 billion of this amount, up from $600 million the year before.

Illegal tax protesters are those who advocate or participate in schemes that result in tax evasion. During 1981, about 27,300 protester returns were filed but IRS was unable to place less than half of these under examination. At the end of FY 1982, IRS had 31,000 protester returns under examination and had closed over 10,000 cases -- a 12 percent increase over the previous year.

A significant form of non-compliance is overclaiming exemptions on W-4 Forms, withholding allowance certificates. IRS has had to use its examination resources to monitor continued illegal filing by employees even after they were notified their filing was unacceptable.

The noteworthy progress IRS has made in dealing with these specific forms of noncompliance demonstrates that the proper use of Revenue Agents and Tax Auditors can be a significant deterrent to tax cheating, provided there is an adequate number of employees to deal with the scope of the problem. When overall audit coverage falls to 1.5 percent, as the Administration proposes, the IRS presence is far too slight to serve as an adequate deterrent.

Even though IRS has the ability to concentrate its examination resources on particular classes of tax returns with the largest potential for revenue gain, evidence indicates that the number of returns examined in all groups usually declines as audit coverage falls. Obviously, a large number of returns with a high potential for tax change will simply not be audited for lack of resources. This is demonstrated by Tables 4 and 5, which show the number of returns examined and audit coverage for individual, corporate, and partnership returns from 1978 to 1982; and the number of returns examined and audit coverage for individual income classes in FY 1981 and FY 1982.

Table 4 clearly shows that the number of individual, corporate, and partnership returns examined fell over the entire period from 1978 to 1982, while audit coverage as a whole was falling. Particularly noteworthy is the sharp drop in the number of corporate returns audited between 1980 and 1982, which we called attention to in our testimony last year. Since additional taxes and penalties assessed on corporate returns audited account for 60 percent of total examination assessments, it would have been prudent for IRS to maintain its audit coverage of corporate returns as its resources fell. This it failed to do, with an obvious loss of revenue because corporate audits yield far more than individual audits in dollar terms.

Table 5 shows the number of individual returns examined, by income class, for the two-year period 1981-1982. In the non-business returns, we see that IRS was able to increase the number of high-income returns examined even though audit coverage fell due to the increased number of returns. In the highest income class among the business returns, we see that IRS sharply reduced the number of returns audited. At the same time, it increased the number of returns audited in the lowest income class.

This data shows conclusively that IRS audit plans have favored the corporate and high-income business taxpayers since 1981. IRS justifies this by noting that audit plans are not designed solely to maximize revenue yield, but to raise the level of compliance in the particular class. This view has recently been criticized by GAO, which sees the government foregoing too much revenue as a result (GGD 82-34, Chapter 3) of this policy. IRS has now stated that its audit plan for FY 1984 will concentrate on high-income taxpayers, but in view of similar statements to this effect in the past, it is difficult to translate what this means in practice.

We strongly urge the Subcommittee to look into this matter and to require IRS to justify its FY 1984 audit plan, particularly as it relates to corporate and high-income business tax returns. With recent polls demonstrating that the public believes that the Reagan tax cuts overwhelmingly favored the business community, the reduction of corporate and upper-bracket business audits will only fuel the perception that the tax policies of this Administration are weighted toward "corporate America" at the expense of the individual taxpayer.

In FY 1984, 102 million income, estate, gift, and partnership returns will be filed, 5 million more than in FY 1980. But IRS examination staff-years will increase only 3.7 percent, and the number of returns examined will actually decrease 23 percent. As a result, audit coverage is projected to be 1.5 percent in FY 1984, the fourth successive year in which the coverage has remained below 2 percent. These data are shown in Chart 2 appended to the end of our statement.

Given the overwhelming evidence of sharply declining compliance and its ruinous impact on the tax system, to complacently accept the 1.5 percent examination rate recommended by the Administration would be a blueprint for disaster. It would assure a continuing decline in compliance at the critical moment when we should be moving decisively to prevent any further "bandwagon effect" among honest taxpayers. The longer we wait to act, the greater the danger that public attitudes will have shifted permanently and our ability to regain the 90 percent compliance level of the past may become impossible.

We believe that a sound compliance strategy for FY 1984 and beyond would be to set as a goal the attainment of a 90 percent compliance level among all income classes. To achieve this goal, we should begin to raise audit coverage in successive steps to the minimum level of 2 percent needed to maintain an adequate IRS presence among taxpayers generally. Thereafter, we should evaluate the need for additional audit resources based upon the state of compliance and the potential revenue yield.

Some people view IRS audits as an unwarranted intrusion, instead of a process of ensuring that all taxpayers pay their fair share. During the 1960's, five percent of tax returns were audited and the public did not consider this too great a burden. The root cause of our current compliance problems is not that IRS is too intrusive, but that it is not intrusive enough. As the GAO reminds us:

> "It is important to keep in mind that IRS' various compliance activities do no more than require citizens to pay those taxes that were properly due in the first place, and that in fact were so paid by most of their number. Effective compliance should not be viewed as representing a special burden to the public at large; rather it is aimed at ensuring that all share their fair burden."

Our tax system today is in a gravely weakened condition. The first step in restoring its health must be to provide the resources needed to audit sufficient returns to restore public confidence in the efficacy of the system.

NTEU's alternative budget calls for an increase of 5,000 staff-years, or about 17 percent of the existing work force, in Examination and Appeals. We believe this amount is the minimum level of resources required, because of the large number of returns involved and the fact that the number of returns that can be audited with a given level of resources is declining. Furthermore, the increased complexity of our tax laws is lengthening the time required to perform a quality audit. With more returns each year, and fewer audits possible from one staff year, a significant increase in resources is needed to raise audit coverage a slight amount.

Because it will take 11,000 staff years to raise audit coverage to 2 percent, NTEU's program calls for attaining this goal in two stages, 5,000 staff years to be added in FY 1984 and 6,000 in FY 1985. Such resources will permit Examination and Appeals to reduce present case backlogs and deal more effectively with special compliance problems such as tax shelters, tax protesters, and enforcement of the Crude Oil Windfall Profit Tax Act. It will also provide adequate resources to permit Examination and Appeals to follow up on an increased number of compliance leads generated by an expanded Information Returns Program.

Adoption of the NTEU alternative budget for Examination and Appeals will enable IRS to audit an additional 252,000 tax returns in FY 1984, raise the audit coverage from 1.5 to 1.75 percent, and generate $1.8 billion in additional revenue.

Production Pressure in the Examination Division

In carrying out the Examination program, the IRS National Office develops an annual audit plan consisting of the number of examinations to be performed in each class of return. Based on this plan, quotas are assigned to each region and district office, and are ultimately expressed as the number of case closures expected of each work group of Revenue Agents and Tax Auditors. These employees are made to understand that their performance rating will depend upon closing the required number of cases. When actual production falls short of the plan, management turns up the heat to "deliver the plan".

This system places the employees in a straitjacket in which production pressure to achieve statistical quotas is the driving consideration, rather than the performance of quality audits fair to the government and taxpayer alike. This sytem undermines voluntary compliance in two ways. First, taxpayers can readily detect the employee's interest in closing the case as quickly as possible, and are naturally aware of the audit issues that were overlooked for lack of time. Second, taxpayers frequently conclude that if an employee has a quota of cases to close, he/she must also have a quota of dollars to make, and from this they conclude that the system is very unfair.

The emphasis on quantity over quality also has a seriously adverse effect on the morale and professionalism of the staff of Revenue Agents and Tax Auditors. When employees are pressed to close cases after only one interview with the taxpayer; when audits are focused on two or three questionable issues and Revenue Agents are unable to follow up on leads; when a premium is placed on agreed settlements even though such settlements may be fair to neither the taxpayer nor the government; these employees are bound to feel that their skills are not being properly used. They are bound to resent being treated like clerks, and having their jobs reduced to a matter of closing as many cases as possible.

When it investigated this situation in 1979, GAO confirmed that Examination employees had inadequate time to perform quality audits, and that audit quality had deteriorated seriously. GAO pointed out that when IRS does less than quality audits, some taxpayers may pay more than they owe, tax revenues may be lost, and voluntary compliance may suffer. GAO found that in about half the cases it reviewed significant audit issues were overlooked, and items were not being audited in sufficient depth.

In its report, "IRS' Audit of Individual Taxpayers and Its Audit Quality Control System Need to Be Better", GAO stated that it "traced the reasons for quality problems to several factors, most of which were connected by the theme of time pressure exerted by management, whether real or perceived, to do audits as quickly as possible." Eighty-five percent of Tax Auditors, 71 percent of group managers, and 72 percent of reviewers said that Tax Auditors had less than adequate time to conduct audits. Seventy percent of Tax Auditors, 58 percent of reviewers, and 39 percent of group managers felt quantity was being overstressed to the detriment of quality.

The root of this problem is that when IRS prepares the national audit plan, it does not have the foggiest notion of the time required to perform a quality audit. As a result, IRS' estimate of the number of audits to be performed with the available resources has been totally unrealistic. In two separate reports, one issued in 1976 and one in 1979, GAO expressed concern over whether examination rates used in developing the annual audit plan provided enough time for Revenue Agents and Tax Auditors to conduct quality audits. GAO called upon IRS to define audit quality in measurable terms and determine the time required to do a quality audit. To date, IRS has not responded to this advice.

In its 1979 report, GAO found IRS management oblivious to the fact that audit quality had deteriorated seriously. GAO noted that IRS management did not even acknowledge that it had a problem. When faced with a major programmatic deficiency uncovered by GAO, IRS simply tried to belittle the report's findings.

We believe the reason for this entrenched attitude is that IRS management is fearful of the need to make fundamental changes in its management system, to which it has become wedded over time. Yet the present situation in which the Examination Division finds itself -- with increasing numbers of complex returns, more tax shelter cases, and low audit coverage -- urgently requires management to make basic changes.

In this process, it would behoove IRS to listen to its employees. Most studies show there exists a dramatic potential for increased morale and productivity when workers have an input into determining their unit's goals. If audit goals were determined at the work unit level, with employee participation, such plans are far more likely to be realistic and to allow time for quality examinations. With returns becoming more complex, only employees on the line have an accurate notion of the time needed to conduct a proper audit. If employees were allowed to contribute, IRS would be able to produce a more realistic audit plan, and its employees would be far more supportive in achieving the goals of that plan. We believe that morale, productivity, and quality would all benefit from such an approach.

We urge the Subcommittee to call upon IRS to overhaul its management system along these lines. IRS must put statistical tools in their proper place. The system of incentives that puts numbers ahead of professionalism must be changed. By reforming its management system, IRS can ensure that its audits enhance voluntary compliance, that its audit plan is realistic, and that the talents of its employees are harnessed in both planning and execution.

Revenue Agent And Tax Auditor Attrition

By allowing production pressure to govern so sensitive an area as taxpayer audits, IRS has been alienating its employees, who find it difficult to identify with a system that has become unreasonable and misguided. Production pressure has been a contributing factor in the exodus of many talented people from the Service. Attrition among Revenue Agents in 1980, the last year for which statistics are available, was the highest in 13 years. Similarly high attrition can be found among Tax Auditors as shown in Table 6 at the end of our testimony. This high turnover is producing a less skilled and less experienced workforce, and is adversely affecting the Service's ability to get its job done.

An IRS study of attrition among GS-5 and GS-7 Revenue Agents conservatively estimated that these personnel losses cost the Service almost $6 million annually, exclusive of training costs and lost productivity. While salary was the single leading factor for the loss of quality workers, production pressure was listed more frequently than salary as the cause of separation by respondents to a post-employment questionnaire.

Typical write-in comments were: "IRS worships statistics without regard for professional quality of audits"; "IRS treats Revenue Agents like clerks"; "It's hard to do your job when all that your supervisors are interested in is more tax money, not just being fair to the taxpayer"; and "Management is insensitive and lacking in initiative regarding improvements in working conditions".

The study found that "a much higher percentage of employees indicated they left for reasons associated with production pressures and dissatisfaction with Agency policies and practices than were reported by management".

Even more significant is the number of experienced Revenue Agents who are lost each year. An IRS study that looked at Revenue Agent quits (voluntary separations, not including retirements) in FY 1979 showed that losses in GS-[illegible] to GS-13 positions were 63 percent of the total number of Revenue Agents who quit that year. The other 37 percent who quit were in grades GS-5 to 7. In other words, more experienced Internal Revenue Agents are leaving the Service than inexperienced Agents. The field offices with the highest quit rates of experienced Agents were located principally in the Sunbelt states of the Southeast and Southwest.

Salary and alternative employment opportunities are important factors in this attrition. An IRS study completed in 1981 stated:

> "IRS salaries are becoming increasingly less competitive in the market place for accounting graduates. This makes it difficult to attract quality graduates, as well as to retain those that the Service is able to hire. . .
>
> While salary is a significant reason for Revenue Agent quits, it is a much more critical factor in the initial recruitment of quality trainees. Substandard salaries, all else being equal, will result in substantial numbers of substandard hires. . . .
>
> The task force concludes that . . . it will be increasingly difficult to hire adequate numbers of quality Revenue Agent recruits in 1981 and succeeding years."

The study pointed out that, according to the College Placement Council, the average starting salary offer to graduates with a bachelor's degree in accounting was $16,728 in 1981. The salary offer for the 50th percentile was $16,800 while the salary offer for the 10th percentile (above which 90 percent of the offers were made) was $15,000. These figures compare to IRS starting salary offers of $12,266 for GS-5 and $15,913 for GS-7. Clearly, IRS is unable to compete salarywise for high calibre accounting graduates.

Inadequate salaries, disenchantment due to production pressure and lack of professionalism, and better private sector employment opportunities are causing excessive attrition of skilled Revenue Agents. At the same time, the Service's inability to compete for quality people is making it increasingly difficult to replace these losses. Under these conditions, the skill level of Revenue Agents as a group is bound to decline if remedial action is not taken. This can have a seriously adverse affect upon the ability of IRS to improve voluntary compliance through increased audit coverage.

In addition, despite these severe problems, the Office of Personnel Management (OPM) is now threatening to downgrade the Revenue Agent occupation. Unless the OPM is directed to stop this action the exodus of skilled Revenue Agents from the Service will become a stampede. Instead, we believe that the IRS must formulate and implement, with Congressional support, an IRS Employee Retention Program covering critical occupations where attrition is excessive. The Employee Retention Program should contain measures designed to enhance the attractiveness of the Revenue Agent's job, upgrade professionalism, provide greater career opportunities, and increase recognition of outstanding performance. The program should represent a full commitment by IRS to alleviate an extremely serious problem.

Most importantly, Congress and the Administration need to address the problem of IRS salary scales being out of line with the private sector in terms of both pay and responsibility. For too long, the Federal Government has kept the upper grade of an Internal Revenue Agent at the GS-13 level, despite the tremendous growth in complexity of our tax laws and the degree of accounting sophistication with which returns are prepared. A Revenue Agent's responsibilities in auditing a complex return of a corporation or partnership today, and the commensurate skills required, are much greater than a decade ago.

In an editorial entitled, "David (IRS) vs. Goliath, Inc.", the Washington Post addressed this problem last year:

> "The Senate tax bill will not help with one nagging problem of tax enforcement: the mismatch between the IRS and behemoth corporate taxpayers and their unfathomably complex returns. The mismatch may cost billions in lost revenues.
>
> Imagine you are a very senior revenue agent, with a college degree in accounting, many years of experience and specialized training in some particular area of taxpayer chicanery, like depreciation or pension plans. You and 20 or so colleagues are assigned to the IRS's leased office space at the headquarters of a multinational corporation with 82 subsidiaries and $15 billion in assets (as near as they can tell, anyway). All of you will spend the next two years playing with com-

> puters and examining selected issues in, say, tax years 1979-81. You are confident of finding tens of millions of dollars in deficiencies. But who trembles? You, the GS-13, or they, the field marshalls ahead of battalions of accountants and lawyers? . . .
>
> Yes, we have over 17,000 IRS auditors and agents already. Still, there are apparently billions of dollars sitting around in corporate coffers available for the asking. It takes more resources to be able to ask the questions, because these companies don't know themselves what their 'true' tax liabilities are. They have been so successful at lobbying for assorted intricacies in the tax code that filing and auditing their returns have become a multibillion dollar guessing game . . . .
>
> In recent years, the IRS has become much more sophisticated and professional. Congress should give them more than slingshots to go after the Goliaths."
>
> (July 26, 1982; reprinted in full at the end of our testimony.)

This editorial graphically describes the mismatch between senior IRS Revenue Agents and their corporate counterparts. The mismatch in relative pay and responsibility is well known and has existed for some time. Congress can help to correct this situation by requiring the Administration to immediately raise the level of a senior Internal Revenue Agent to GS-14, and by establishing standards for higher grades in appropriate situations. In addition, Congress should provide additional pay to permit IRS to attract and retain high-calibre Revenue Agents, and other occupations in areas where the Service is having recruitment and retention difficulties.

Automated Examination System (AES)

IRS plans to install and test an Automated Examination System (AES) in FY 1984, and to further expand the system in FY 1985 and beyond. The purpose of the system is to permit examinations in IRS Service Centers and District Offices to be conducted without the paper tax return, by drawing tax return data from existing computerized sources. This information would be made available to Tax Auditors on a video display terminal. The auditor would conduct the examination by entering information required to deal with the particular audit issues identified prior to the examination. After the data is entered, the system would compute the correct tax due and print a report that records the examination results. Other offices will use this system for case control, report writing, and updating the Master File.

IRS expects that improved computer support for Tax Auditors will result in more efficient office examinations. Its FY 1983 budget documents stated that savings resulting from the system would be applied to additional examinations, but this statement was omitted from its FY 1984 submission. We strongly urge that, in view of the current low level of audit coverage, IRS should apply any savings to increased examinations, thereby improving compliance and obtaining added revenue.

While AES is too new to permit evaluation at this time, we will be monitoring its development closely. We do not oppose giving IRS employees the tools needed to do a better job. However, this will be an important test of whether IRS management intends to solicit the views of its employees and permit their participation in the introduction of a system which will make radical changes at the workplace and entail new job responsibilities. We expect to be consulted at each step of the process, so that the impact on employee morale, job description, and career opportunities will be accommodated.

Appeals

At the beginning of FY 1984, the backlog of cases in Appeals will stand at the highest level on record, over 54,000 disputes involving $13.7 billion in unresolved tax deficiencies and penalties. Many of these are tax shelter cases, and approximately 90 percent of the dollar amount is concentrated in large cases where the unresolved deficiencies exceed $100,000.

Given the extent of this backlog, and the abnormally high average caseload per Appeals Officer, we are pleased that the Administration's budget request for FY 1984 includes $16.3 million for 327 additional Appeals Officers. While this will reduce the average caseload per Appeals Officer from 63 to 48 by the end of 1984, the total backlog will remain essentially unchanged, 52,000 cases at the end of FY 1984.

NTEU believes that even further resources are required in Appeals. This is called for especially in light of the huge backlog of cases docketed before the Tax Court, where the number of cases pending will jump from 66,500 at the end of FY 1983 to 84,900 at the end of FY 1984, a 28 percent increase in one year.

Appeals Officers are highly skilled professionals who strive for settlements which are in the best interest of the taxpayer and the government. By virtue of their years of experience, these employees are among the most technically knowledgeable in the IRS. The Service must make better use of their skills, and increase their number, if cases are to be settled administratively and the backlog before the Tax Court kept manageable.

For this reason, we recommend that 500 of the additional 5,000 average positions provided for Examination and Appeals by the NTEU alternative budget be used for additional Appeals Officers. This will permit the closure of 14,000 more cases and the collection of an additional $1.9 billion in taxes and penalties over the level of the Administration's budget. It will reduce the inventory at the end of FY 1984 to 38,000 cases compared to 52,000 under the Administration's proposal. It will also reduce average caseloads per Appeals Officer to 28 cases, after full staffing is achieved. This is a much more reasonable level than the 48 cases per Appeals Officer projected by the Administration.

IRS must also increase the authority of Appeals Officers over dispute resolution. We have long criticized as unwise a procedure instituted in 1978 which gave Appeals Officers only four months to settle unresolved docketed cases. Four months is simply an insufficient time to evaluate and settle a case with any significant degree of complexity. We stated that this artificial time limit would only ensure that many cases which could otherwise be settled administratively would instead be brought to trial. This has been borne out by the skyrocketing caseloads being forwarded to litigation.

We now understand that, under Revenue Procedure 82-42, the Chief Counsel is allowing Appeals to generally keep a case as long as progress is being made toward settlement. We welcome this change in policy, which we will monitor closely to determine whether it will have any practical effect. At the same time, we believe there should be safeguards to ensure that the goal of achieving a fair settlement with the taxpayer is not supplanted by the interest of the Chief Counsel in keeping litigation caseloads manageable. Appeals Officers must not be pressured to accept premature settlements, regardless of the merits of the case, in order to decrease the workload on the Chief Counsel's attorneys.

Collection

Collection Division is responsible for collecting delinquent tax accounts and obtaining delinquent tax returns after the taxpayer has failed to respond to written notice. Mounting unpaid tax accounts and non-filing of required returns have been persistent signals of increasing taxpayer noncompliance in recent years.

According to GAO, the total amount owed by taxpayers in FY 1981 was $20.5 billion. Of this amount, $8.8 billion was in collection process, $.8 billion was in installment and deferred accounts, and $3.9 billion was classified as currently not collectible. The balance was in accounts not processed ($4.7 billion) or set aside for further investigation ($2.3 billion).

These figures -- $20.5 billion uncollected from taxpayers and $3.9 billion written off as uncollectible -- comprise one of the sorriest chapters in the history of tax administration. Much of the $4 billion loss, due to aging of past due accounts, could have been prevented if the repeated warnings of our union had been heeded. It was only last year, after the situation had reached the proportions of a national scandal, that the Administration finally proposed and Congress approved an increase of 4,000 average positions to begin to reduce the collection backlog.

Because the additional staff will be recruited and trained in FY 1983, they will not reach their full potential until FY 1985 and beyond. So it is evident that our collection system will be creaking through a difficult transition period in which tax accounts will continue to mount and many aged accounts will be written off as uncollectible. As an indication of the relative productivity of new and experienced Revenue Officers, a recent IRS study shows that journeyman Revenue Officers in grades GS-9 to GS-11 collect on the average 2.5 times as much revenue as trainees in their first year of service (GS-5 to GS-7).

The Administration's budget request for FY 1984 for Collection actually reduces that division by 224 average positions, because of the increased productivity of this program. The only gesture made by the Administration for increased resources was a request for $7.6 million in overtime funds to allow the present work force to collect an additional $100 million in revenue. With the enormous workload in Collection, it would appear more logical to retain the 224 average positions, at a cost of $5.8 million, than to request $7.6 million in overtime funds. We do not quarrel with the added overtime money, as long as employees are not pressured into working overtime. But we feel strongly that, until caseloads become more manageable, additional staff is required.

The number of delinquent accounts will increase by 3.2 million in FY 1983 and another 3.3 million in FY 1984, while account closures will be 3.1 million in FY 1983 and 3.3 million in FY 1984. It is evident that, even with the new resources IRS has been provided, no significant reduction will be made in the active inventory of accounts receivable, which will stand at 2 million at the end of FY 1984. The 4,000 staff years in the Administration's revenue initiative in FY 1983 will only allow IRS to keep up with the growing workload.

For these reasons, NTEU's alternative budget provides 1,200 additional staff-years for Collection. This will allow for the collection of 221,000 additional delinquent accounts, yielding additional revenue of $646 million. Even more significant, this will make possible a reduction of the delinquent accounts inventory to 1.8 million by the end of FY 1984 -- the first such reduction in eight years. We would also begin to curb the huge amounts being written off as uncollectible, because of the aging of past-due accounts. We would take the vital first steps in putting the collection program of the IRS on a truly sound footing.

We urge the Subcommittee to approve the full amount of $32.3 million and 1,200 average positions above the Administration's budget request recommended by NTEU for Collection in FY 1984.

Production Pressure in the Collection Division

Because of the large backlog of delinquent accounts, and management's worship of statistics, production pressure on employees in the Collection Division has been most intense. Management is still insisting on closing the maximum number of cases in the shortest possible time, and little else seems to count other than statistics of closures.

It is imperative that collection activities be fair and be executed professionally, because such actions can involve the seizure of a taxpayer's business or other assets. Since a seizure effectively shuts a business down, the interest of the government in protecting the revenue and the interests of the taxpayers, many of whom are small businessmen, must be carefully weighed.

In recent years, production pressure in the Collection Division has led to the unwise seizures of many businesses, a Congressional investigation, legislation to curb IRS' recourse to seizure action, and sensationalizing of the problem by the media. As the representative of IRS employees, including the employees of the Collection Division, we wish to reiterate our conviction that seizures do not make sense in many cases. The taxpayer loses his business and the Federal government loses revenue. Seizures should only be used as a last resort -- not as a means of improving statistics on some manager's chart.

However, IRS has refused to heed the advice of Congress or its own employees in many instances. Production pressure continues to be a problem in the Collection Division. Groups have their performance measured by their ability to achieve statistical objectives, case closures, seizures, and levy actions. Some managers apply these measures to their employees as well.

For example, the Louisville, Kentucky District is an office where the pressure to seize has been increasing in recent months. Jacksonville, Florida is another District Office where Revenue Officers have been made to understand that unless taxpayers make payment within 30 days, they are to initiate seizures. While IRS procedures call for implementing installment payments in appropriate cases, the de facto policy in this District is that taxpayers must make full payment of liabilities within 30 days or seizure procedures are to begin.

Two years ago, NTEU called for a Congressional investigation of the Los Angeles District's Collection Division, where production pressure has been and continues to be an extremely serious problem. We would like to quote from a petition signed by 60 percent of the Division's employees, which eloquently describes the problem they face and its impact on the taxpayers:

> "The Collection Division in the Los Angeles District of the Internal Revenue Service is unable to treat each taxpayer as an individual with unique problems and individual concerns. This is not because the employees do not want to do so, but because management will not allow it. The taxpayers of this District will feel increased pressure from the IRS in the future due to the fact that increased caseloads and low levels of employee morale and technical ability are forcing enforcement officers to look for the easy way to close a case and not the best way. This will result in the taxpayers in the Los Angeles District having businesses closed and bank accounts attached. The employees in the Los Angeles District want to treat the taxpayers as human beings but management will not allow it."

Production pressure has been a major cause of high attrition among Revenue Officers, which in 1980 reached 10 percent, the highest level in 11 years. The exodus of skilled employees from the Los Angeles Collection Division has reached the point where 75 percent of the people have less than three years on the job. Almost a third of the Revenue Officers in the Los Angeles District have less than twelve months on the job.

Low pay also contributes to this adverse situation. An article on the Collection Division which appeared in the Wall Street Journal for March 29, 1983 commented:

> "Getting and keeping good people isn't easy, especially when the starting pay for revenue officers -- people who go out and try to collect money in person -- is $12,850 a year. Office collection officials, who work by telephone, start at $11,500. . . . In the Sun Belt, where the collection problem is at its worst, IRS salary scales can't compete with the pay offered in fast-growing industries."

The same article quoted an office manager in California as saying that in any given year turnover among her 250 employees ranges from 75 to 100 percent. "I don't know how many well-trained people I have," she was quoted as saying.

The injection of new resources will help recover the lost effectiveness of the Collection Division, but new resources alone will not do the job. Employees should be allowed to participate in formulating realistic work plans, which they will feel responsible for executing. Greater employee participation in setting work goals will not only improve morale, but will contribute to a more professional climate and increased productivity as well. It will also help lower attrition.

In addition, as discussed earlier in our statement, IRS should implement an Employee Retention Program for Revenue Officers and other critical occupations which are experiencing high turnover. Among the steps that should be taken with the assistance of Congress are a review of pay differentials with the private sector, and increased salary scales to insure that IRS has the ability to compete for qualified persons in the marketplace. Our union would be glad to assist the Subcommittee in this endeavor.

Automated Collection System (ACS)

IRS implemented a pilot program for an Automated Collection System (ACS) in FY 1983. This program is to be expanded to additional sites in FY 1984, and our union is currently negotiating with IRS over the impact of this new system on the employees and the workplace.

The Automated Collection System will permit office Collection Officers to obtain taxpayer account information, to telephone delinquent taxpayers, and to send follow-up notices by means of a computer. The system incorporates automated telephone dialing, accounts receivable inventory management, and caseload control. It results in an essentially paperless office collection process.

NTEU will closely monitor the introduction of ACS because of its potential for major impacts on personnel, career opportunities, and the workplace. IRS has pledged not only to keep us fully informed, but to consult with us during the development of this system. Fulfillment of this commitment will be an important step in the continuing process of cooperation between labor and management.

Centralization of Review

IRS is testing in the Central Region a centralized system of reviewing collection cases that are processed in District offices. Instead of a District's own quality control staff reviewing the cases (the current procedure), cases would be shipped to a centralized staff in a designated central District for quality review.

IRS believes that the new procedure has the advantages of increasing the expertise of Reviewers, the ability to cross-train Reviewers on different issues, and national uniformity in the judgments of Reviewers.

We believe that this program will accomplish exactly the opposite of its stated goals. Presently, the Reviewers provide a valuable on-site resource for Revenue officers. If the Reviewers are centralized, only those Revenue officers in the central District will receive the benefit of their experience and instruction. The present system is one which is efficient and effective for both the Service and the taxpayer.

IRS admits that it has not performed a detailed cost-benefit analysis of the centralization concept. Nor has it demonstrated that the present system of quality review is not working. It has simply embarked on this program without any convincing showing of the need for such change.

We believe that centralized review entails costs for both the taxpayer and the Service that are not being taken into consideration. The movement of an individual's files to a central District will force the taxpayer and his/her representative to travel back and forth to the central office each time a meeting with IRS is scheduled. For example, in the Central Region, Cincinnati has been designated as the central review location. This means that taxpayers from Cleveland, Detroit, Indianapolis, and

Louisville would have to travel to Cincinnati to have a conference on their case. Many tax practitioners have purposely located their offices near local IRS offices. The costs and inconvenience imposed on the private sector need to be considered by the IRS. The cost of shipping case files from the District office to the central district and the costs associated with loss or misplacement of some of these files must also be considered. We believe this would be a highly inefficient way for IRS to conduct its operations.

Because of the flimsy rationale for this test, and the serious impact upon the taxpayers and the affected employees, we urge the Subcommittee to bar the use of appropriated funds for any further implementation of this program.

Taxpayer Service

Adequate resources for Taxpayer Service is essential if a high degree of voluntary compliance is to be achieved. We have, earlier in our testimony, stressed the need for additional enforcement resources to raise compliance levels. These resources must be complemented by a strong Taxpayer Service program, which makes it possible for taxpayers to comply voluntarily with the tax laws. The willingness of taxpayers to correctly assess their tax liability, as well as their ability to do so through correct understanding of an increasingly complex tax code, depends to an important degree on the availability of assistance from IRS. Such assistance, no less than enforcement activity, raises the IRS presence in the community and inspires confidence that taxpayers are being dealt with fairly.

Last year, the Reagan Administration proposed a huge cut in the Taxpayer Service program which would have eliminated all toll-free telephone assistance to answer tax law questions, and would have shut down many walk-in assistance offices. The practical effect of this proposal would be to require the American people to pay for tax assistance from private practitioners. The Commissioner of Internal Revenue himself opposed this cut, arguing in a memorandum to the Secretary of the Treasury that:

> "large numbers of taxpayers can be expected to interpret the law in a way favorable to themselves, with little likelihood of detection", and

> "a significant decline in voluntary compliance and a concurrent decline in revenues may result."

The GAO made the point that the cut, while ostensibly saving $50 million, might cost the government more money because:

> "It is possible that some taxpayers may or may not file returns containing inadvertent errors or errors resulting from personally favorable tax law interpretations. IRS, therefore, could conceivably face a situation where return perfection and collection costs exceed comparable pre-filing assistance costs."

NTEU argued that:

> "IRS employees will have to confront these irate citizens and explain why their government will no longer meet its tax responsibilities."

Congress heeded these arguments and decisively rejected the Reagan proposal, restoring all the funds to this program. As a result, 47 million taxpayers will be assisted during the current fiscal year, compared to 19 million if the cutback had been approved.

This year, the Reagan Administration again proposes to gut the Taxpayer Service program by eliminating all toll-free telephone tax law assistance during the filing season. The Administration's proposal would cut $25 million and 1,000 staff-years from the Taxpayer Service budget. The Administration's program would permit assistance to 29.3 million taxpayers through the basic taxpayer assistance programs, which involve actually speaking to the taxpayer (toll-free telephone service to answer tax account questions, and walk-in service); and would allow 9.3 million additional taxpayer contacts through the Tele-Tax telephone system, where the taxpayer may dial a pre-recorded message, and through a new Outreach Program to local community centers. There would be a total of 38.6 million taxpayer contacts if Tele-Tax and Outreach are counted in addition to basic telephone and walk-in assistance.

Since there is no evidence whatsoever that Tele-Tax and Outreach will reduce the basic demand for face-to-face assistance with an IRS representative, either over the telephone or in person, we believe these programs should be viewed as a supplement, and not a substitute, for the basic taxpayer assistance program.

This is especially true in view of the fact that IRS has not completed its evaluation of the Tele-Tax system. Also, IRS reduced the number of walk-in locations from 829 to 615 between FY 1981 and FY 1982, a 26 percent reduction. This means the new Outreach Program really amounts to an effort to restore some service to the large number of taxpayers who lost their opportunity to receive walk-in assistance last year.

The basic Taxpayer Service program of the Administration will provide assistance to 29.3 million taxpayers (not including 7.8 million Tele-Tax contacts and 1.5 million Outreach contacts). This is a 38 percent reduction in the basic assistance program, where the taxpayer actually has a chance to speak to a Service representative, from the level of FY 1982 when 47 million taxpayers were assisted.

Given the fact that an estimated 72 million taxpayers will request assistance in FY 1984, the Administration's program will provide assistance to only 4 out of 10 taxpayers requesting help. The demand for taxpayer assistance, compared to the number of taxpayers receiving assistance, is shown in Table 7 appended to our testimony.

Table 7 also shows that the demand for taxpayers filing individual returns has increased. Equally significant is the fact that whereas 52 percent of the filing population requested assistance in FY 1986, by FY 1983 seventy-one percent of the filing population was doing so. This increase in the proportion of the filing population seeking help is undoubtedly related in large part to the increasing complexity of our tax laws and the number of major tax changes enacted between 1976 and 1982. All told, there were six major pieces of tax legislation enacted during this period: Tax Reform Act of 1976, Revenue Act of 1978, Omnibus Reconciliation Acts of 1980 and 1981, Economic Recovery Tax Act of 1981, and the Tax Equity and Fiscal Responsibility Act of 1982.

We believe that the Administration's proposed cutbacks in Taxpayer Service for FY 1984 are as unwise and irresponsible as last year, and we urge the Subcommittee to reject them.

According to IRS, the cost of restoring the 1,000 positions would be $25 million. We have computed (see Table 7) that this restoration would permit service to 6 out of 10 taxpayers requesting assistance, compared to 4 out of 10 under the Administration's proposal.

However, we would go further. The percentage of taxpayers who actually receive assistance, and are not turned away by long lines or busy signals, is beginning to fall dangerously low. Whereas 93 percent of taxpayers requesting assistance were actually assisted in FY 1976, by FY 1983 this figure had fallen to 69 percent. If this trend continues, it is bound to have a serious effect upon voluntary compliance.

About 82 percent of the basic taxpayer assistance workload is handled by the toll-free telephone system. In its studies of Taxpayer Service, GAO has pointed to the declining capabilities of this system. In 1979, 81 percent of taxpayers who sought assistance actually reached an assistor. By contrast, only 70 percent of taxpayers attempting to contact IRS by telephone got through to an assistor in 1981. In a survey conducted in 1982, GAO found that taxpayers were able to reach IRS on their first call only 61 percent of the time. Taxpayers who were willing to make multiple calls had an 86 percent chance of reaching an assistor within a total of five calls. GAO also noted an increase in the number of erroneous answers given by assistors.

It is evident that the timeliness, availability, and quality of the toll-free telephone system has seriously deteriorated and is in much need of improvement. This is due in large part to the declining resources allocated to the operation of this system.

The NTEU alternative budget for Taxpayer Service for FY 1984 would not only restore the 1,000 positions cut by the Administration, but would provide 500 additional average positions to up-grade the capabilities of the toll-free telephone system and permit 7 out of 10 taxpayers requesting assistance to be served. We believe that the goal of serving 7 out of 10 taxpayers is the minimum level that should be achieved by IRS, if the level of Taxpayer Service is not to have an adverse impact on voluntary compliance.

NTEU's alternative budget would provide an additional $37.8 million for 1,500 average positions above the Administration's budget request for FY 1984. This level of resources would permit service to 52 million taxpayers, 22.7 million more than would receive basic assistance under the Administration's proposal.

We strongly believe that an adequate Taxpayer Service budget is essential if the decline in voluntary compliance is to be reversed. The taxpayers who contact IRS for assistance want to comply. If they are turned away, their willingness and ability to meet their tax obligations will suffer, with a consequent loss of revenue to the government.

The level of resources proposed by NTEU, 4,033 staff-years, is still 300 staff-years below the level of FY 1981 and 500 staff-years below the level of FY 1980 (see Chart 4, appended to our testimony). We strongly urge the Subcommittee to approve the NTEU alternative budget for Taxpayer Service for FY 1984.

Returns Processing

As more people enter the labor force, the number of taxpayers increases and so does the number of tax returns filed. Without changing the tax laws, this basic workload is uncontrollable. A growing number of returns must be processed, tax files updated, and refunds made in a timely manner to taxpayers. This is the job of the nation's ten Internal Revenue Service Centers.

IRS' Service Centers are also involved in carrying out important compliance programs. For example, under the Returns Correction Program, questionable items on a return are resolved through correspondence between the Service Center and the taxpayer. Under this program, 814,000 returns were verified or corrected in FY 1981, resulting in additional revenue of $200 million.

The collection of past-due accounts is processed in the initial stages by IRS Service Centers, which send computerized notices to delinquent taxpayers. Cases are transferred to the field for action when direct contact with the taxpayer is necessary. Over $3 billion was collected from notices sent by Service Centers in FY 1982.

Obtaining returns of non-filers is an equally important compliance function. By associating information documents with cases of taxpayers who filed tax returns in previous years, but who failed to do so in the current year, Service Centers are able to send out notices of apparent failure to file tax returns. Over 1.6 million taxpayers were sent such notices in FY 1981. These cases are managed by IRS Service Centers until field action is required to obtain a return.

It is evident that programs operated by IRS Service Centers are not only crucial for ensuring a high degree of taxpayer compliance, but generate substantial additional revenue as well. Moreover, these programs provide essential support to other IRS compliance activities. Adequate resources for Service Center programs are necessary if IRS compliance operations are to be conducted effectively.

Returns Processing resources have consistently fallen behind workload, as measured by the number of returns filed and refunds scheduled, for the past decade. This is depicted graphically in Chart 5, which shows the trend in Returns Processing workload and resources since 1972. Total primary returns filed will increase 51 percent from 1972 to 1984. Individual tax refunds scheduled will increase 40 percent. By contrast, total staff-years will increase by only 14 percent over the same period.

Between FY 1983 and FY 1984 alone, the total number of primary and supplemental returns will increase 5.1 million, and the number of refunds scheduled will rise 1.1 million. In addition, there will be a major increase in Service Center workload to implement the provisions of the recently-enacted Tax Equity and Fiscal Responsibility Act (TEFRA). Transcribing data on the amount of withheld tax on interest and dividends from 42 million tax returns, transcribing data on sales of commodities and securities from 3 million capital gains and loss statements, and transcribing data on purchases for direct sales from 2 million profit or loss statements will be required to implement the new compliance provisions of the Act.

Much of this information will be computer-matched with data from some 115 million new information returns required by TEFRA. The number of information returns has grown astronomically in recent years, from 517 million in FY 1979 to an estimated 827 million in FY 1984. (IRS will receive a total of 169 million primary returns, 8 million supplemental documents, and 827 million of the information returns in FY 1984 -- a total of 1 billion returns!) While all but 82 million of the information returns are received on magnetic tape and processed by computer, the proper handling of such a large volume of returns is a continuing challenge.

The Administration has requested an increase of 422 average positions and $59 million for Returns Processing for FY 1984. Of this amount, $14 million is the staff cost associated with the increase of 422 average positions, and the remainder is for new automatic data processing equipment.

NTEU supports the full amount of the Administration's request.

In one respect, we would go further in order to ensure that Service Center compliance programs are used to the fullest advantage. The Administration's budget projects that the number of Service Center contacts with taxpayers under the Returns Correction Program will decline from 814,000 contacts in FY 1981 to 782,000 contacts in FY 1984. We believe that, particularly in view of the low audit coverage at present, this program should be expanded to increase IRS presence and enhance voluntary compliance.

We therefore recommend an increase of 300 staff-years and $7.7 million for the Returns Correction Program, to permit Service Center contacts with 100,000 additional taxpayers in FY 1984, resulting in $38 million in additional revenue.

We strongly urge approval of the full amount requested by the Administration for Returns Processing, which is the bedrock minimum required for IRS to meet its new responsibilities under TEFRA in FY 1984. We also urge the Subcommittee to approve the additional amount of $7.7 million and 300 staff-years to increase Service Center contacts under the Returns Correction Program.

Information Returns Program

The Information Returns Program is a major tool for dealing with two of the most important compliance problems -- underreporting of income and failure to file tax returns. In fact, understatement of income on filed tax returns is the paramount compliance problem, accounting for three-fourths of the tax gap (see Table 1).

The Information Returns Program provides for computerized matching of the income reported on tax returns with information documents showing wages, dividends, interest, and other payments, submitted to IRS by employers, lending institutions, and other organizations. Comparing these information documents with tax returns provides investigative leads of potential failures to file required tax returns, and instances of overreporting and underreporting of tax liability.

Both Congress and the Administration have shown considerable interest in expanding the Information Returns Program in recent years. The most recent example of this was enactment of TEFRA last year, which imposed an information reporting obligation on securities and commodities brokers, direct sellers, and other entities. As a result, approximately 115 million additional information returns will be received by IRS in FY 1984. This will bring to over 800 million the total number of information returns received that year. About 80 million of these returns are on paper, and the remainder on computer-readable magnetic media.

Despite its promise, the large-scale expansion of this program poses formidable problems for IRS. The first problem is sufficiency of resources to make the most effective use of the mounting volume of data. Overall, the Information Returns Program is relatively small, accounting for about 4,200 staff-years and about 5 percent of IRS' compliance resources. The program cannot be expanded in a single year by more than what it can efficiently absorb.

Another problem is payor compliance -- ensuring that those who are required to submit information returns actually do so. According to GAO, IRS studies have consistently shown that many information documents are not being filed. Noncompliance rates ranged from 19 to 42 percent in four such studies conducted between 1966 and 1974. More recent studies have shown similar results. The increase we have recommended in Examination resources should enable IRS to deal with this problem.

Another difficult area for the Service is the sheer volume of investigative leads generated by the information return, and the insufficiency of resources to follow up on these leads. According to the GAO study, "Further Research Into Noncompliance Is Needed To Reduce Growing Tax Losses' (GGD 82-34, July 23, 1982), IRS matched 450 million information documents in FY 1979 resulting in 9.4 million "discrepancy" cases involving unreported income. However, because of resource constraints, IRS could resolve only 3.3 million or 34 percent of the cases. Also, IRS could not follow up at District Offices on numerous cases where the matching process indicated taxpayers had not filed tax returns.

Given the fact that the number of information returns will increase by an additional 350 million by FY 1984, it is clear that a substantially larger number of leads will be generated. If headway is to be made against non-reporting and underreporting of income, IRS must be given the resources to bring the Information Returns Program to its full potential. The fact that IRS cannot follow up on two-thirds of the leads it is now generating means the treasury is losing about $100 million a year in revenue, and the Service is losing the opportunity to make important strides in reducing non-compliance.

The time to apply additional resources to the Information Returns Program is now, when IRS is on the verge of receiving 115 million new returns. If we wait one additional year, IRS will be backlogged with cases and will have missed a big opportunity. We believe the Administration has been irresponsible in failing to propose additional resources for the Information Returns Program at this time.

The NTEU alternative budget provides these resources. We recommend an increase of $40 million and 1,600 staff-years for the Information Returns Program in FY 1984. This will permit the Service to work an additional 3.3 million leads, as well as process 100 percent of the paper documents received to generate additional leads. At the present time, only about 20 percent of paper documents are not being used at all.

By processing 100 percent of paper documents and working 3.3 million additional leads, IRS will be able to generate an estimated $1.4 billion in gross yield compared to $1 billion under the present program. Gross yield, which includes refunds to taxpayers as a result of overpayments which are discovered, is a measure of the benefit to the taxpayer as well as the government. On a net yield basis, the NTEU program would produce an estimated $700 million compared to $500 million under the present program, or $200 million in additional revenue. The net yield-to-cost ratio would be $4.7 for each additional dollar spent on the program.

It should be noted that all of the additional follow-up will begin by sending computerized notices from the Service Centers. This process alone will generate a large amount of additional revenue. However, a major benefit of the expanded program will be the favorable impact on compliance of the increased taxpayer contacts. This could produce a "ripple effect" to other taxpayers and, by thus raising compliance generally, generate substantial additional money for the Federal government.

We urge the Subcommittee to approve the NTEU alternative budget for the Information Returns Program. We wish to stress once again the importance of timely action to realize the full potential of this program.

Reorganization of Los Angeles and San Francisco District Offices

As the Subcommittee is well aware, the IRS has proposed to split the Los Angeles and San Francisco districts of the Internal Revenue Service into five separate districts. We believe that such a reorganization is unnecessary and unsubstantiated by the evidence which we have seen at this time. Preliminary examinations of this plan indicate that there will be a significant negative impact on both the taxpayers and IRS employees within the state of California. We are presently reviewing the original studies behind this proposal and we have requested further information on this reorganization. We will be submitting a detailed addendum to our testimony on this subject after we have received additional information which we have requested and had an opportunity to review that information thoroughly.

Conclusion

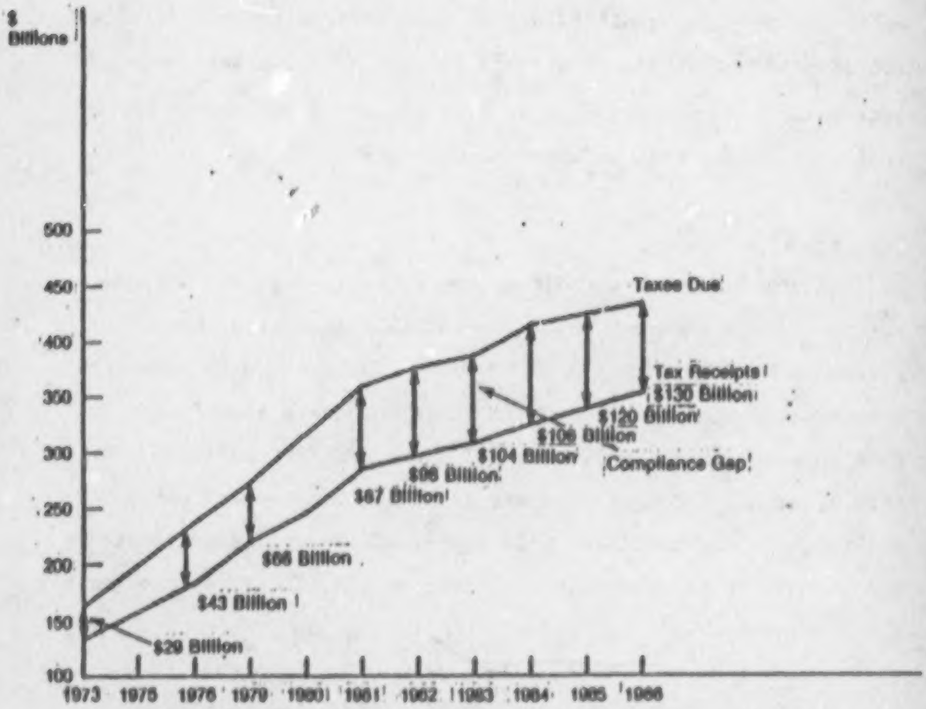
In conclusion, Mr. Chairman, we strongly urge the Subcommittee to approve a budget which substantially increases the resources available to IRS in FY 1984. The minimum increase the Subcommittee should consider, if it is to have a significant impact on compliance, is 5,000 staff-years and $100 million. The NTEU alternative budget provides for 9,600 staff-years and $300 million. We are confident this budget will positively affect compliance, while generating billions in additional revenue for the government.

If our budget, or one closely akin to it is not enacted, we view the future with great foreboding. Recent years have witnessed a significant deterioration in our voluntary compliance system. Compliance is deteriorating not only among the tax protesters, tax shelter abusers, and denizens of underground economy, but among ordinary honest citizens who are losing confidence in the equity of our system.

The future of one of our major institutions is at stake. Americans have always taken pride in our system of voluntary compliance. Once a scoffing attitude toward tax compliance becomes a habit in this country, it will spell the end of our tax system as we have known it. Decisive action is needed now.

We appreciate the opportunity to appear before you today. We are prepared to answer any questions you may have.

Tax Compliance Gap 1973-1986



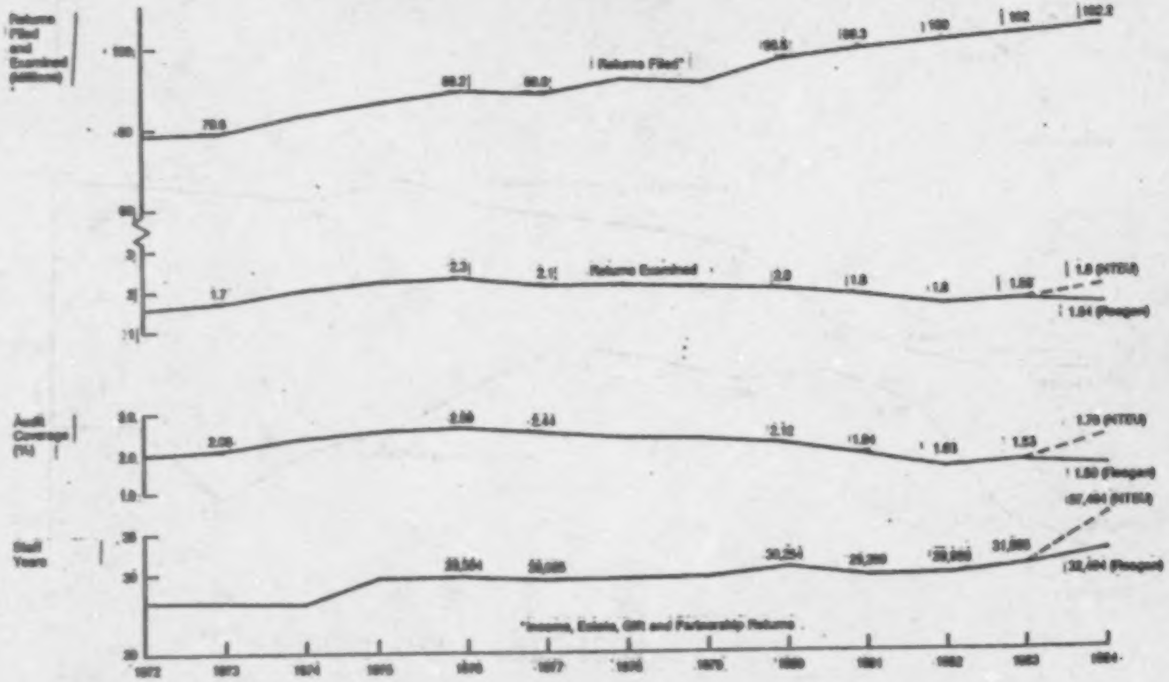
Source: Budget of the U.S. Government for FY 1984; Internal Revenue Service

Note: Compliance Gap is for Individual and Corporate Taxes Legally Owed. Size of the Gap Has Been Reduced for FY 83-86 by Amount of Anticipated Collections from Compliance Provisions of TEFRA.

CHART 1

Examinations and Appeals Workload and Resources

Fiscal Years 1972-1984



*Income, Estate, Gift and Partnership Returns

CHART 2

Collections
Workload and Resources
Fiscal Years 1972-1984

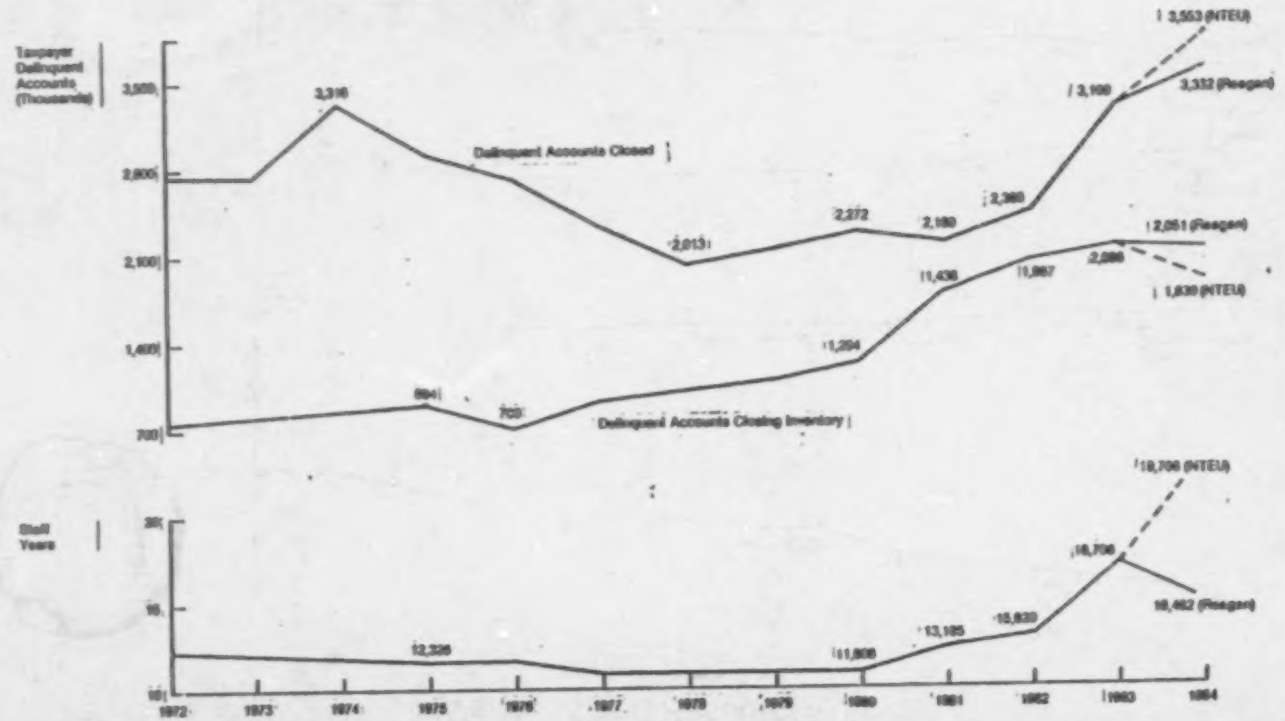
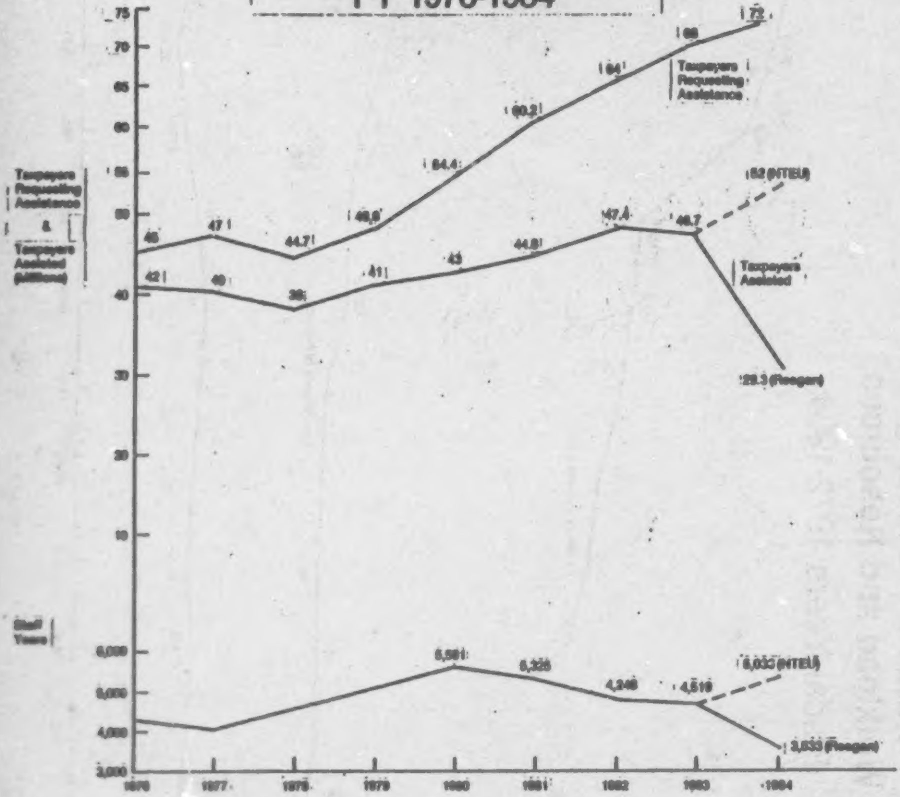


CHART 3

Taxpayer Service Workload and Resources
FY 1976-1984



Source: IRS Budget Submissions and Studies

CHART 4

Returns Processing Workload and Resources

Fiscal Years 1972-1984

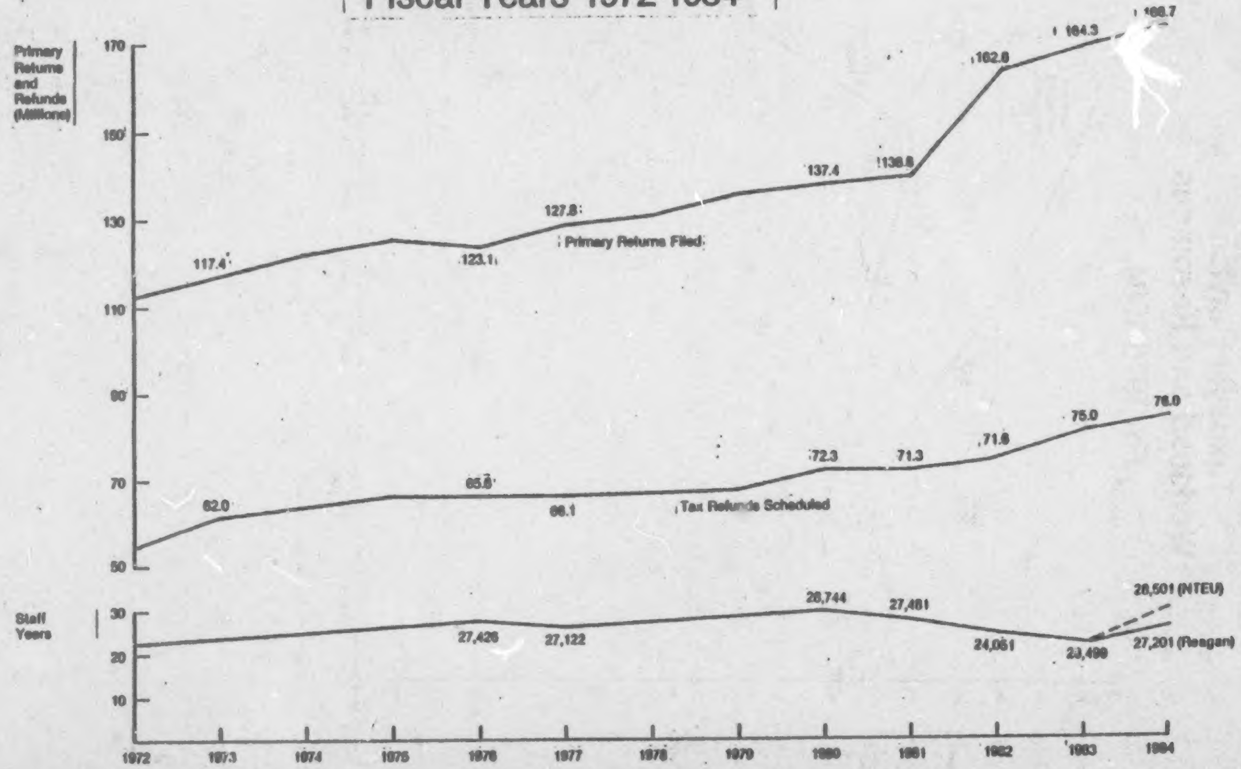


CHART 5

Table 1

Gross Tax Gap from Individual Income Tax Returns Filed, Nonfilers, Corporate Tax and Illegal Sector, Tax Years 1973, 1976, 1979 and 1981 (Amounts in Billions of Dollars)

	Amount of Tax Gap			
	1981	1979	1976	1973
Legal sector, total	87.2	66.5	42.6	29.3
Individual income tax returns, total	83.3	61.8	39.0	26.5
Filed returns, total	78.4	58.4	36.8	25.3
Income underreported:				
Wages	2.5	1.8	.7	.6
Tips	2.3	1.7	1.4	.9
Dividends	3.6	3.1	1.5	.9
Interest	4.1	2.9	1.3	.9
Capital gains	9.1	8.5	5.1	2.0
Nonfarm business	26.2	17.5	11.6	9.6
Farm business	1.4	1.7	1.7	1.5
Pensions	2.8	2.3	1.1	.7
Rents	1.5	1.2	.6	.4
Royalties	1.3	.8	.4	.1
Partnerships	5.5	3.1	2.5	1.5
Estates and trusts	.5	.4	.3	.2
Small business corporations	1.7	1.2	1.2	.4
State income tax refunds	.4	.3	.1	.1
Alimony	.1	*	*	*
Other	3.1	2.4	1.0	.6
Total	66.1	49.0	30.6	20.5
Overstated expenses, deductions credits[1]	12.3	9.4	6.2	4.8
Nonfilers	4.9	3.4	2.2	1.2
Corporate Tax	3.9	4.7	3.6	2.8
Illegal sector, total[1][2]	6.1- 9.8	4.6- 7.4	2.5- 4.0	1.8- 2.9
Drugs	4.5- 8.1	3.2- 6.0	1.4- 2.7	1.0- 2.0
Gambling	0.6- 1.2	0.5- 0.9	0.4- 0.7	0.3- 0.5
Prostitution	0.4- 1.2	0.3- 1.0	0.3- 1.0	0.2- 0.7

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[1] These are preliminary IRS figures and have not been reviewed by the Office of Tax Analysis.

[2] Total of three items below and does not include any other illegal activities.

*Less than one hundred million

Note: Details may not add to totals because of rounding.

Source: Internal Revenue Service, May 1982

TABLE 2
INTERNAL REVENUE SERVICE BUDGET FOR FY 1984
ADMINISTRATION'S REQUEST AND NTEU'S RECOMMENDATION

	Administration's Request		NTEU Add-On To Improve Tax Compliance		NTEU's Recommendation	
	Amount (Thousands)	Average Positions	Amount (Thousands)	Average Positions	Amount (Thousands)	Average Positions
1. Processing Tax Returns and Executive Direction	988,479	27,201	+ 7,729	+ 300 (Note 1)	996,208	27,501
2. Examinations and Appeals	1,287,026	36,301	+176,105	+5,000 (Note 2)	1,463,131	41,301
3. Investigation, Collection and Taxpayer Service						
A. Tax Fraud Investigations	189,795	4,605			189,795	4,605
B. Collection	624,991	18,482	+ 32,306	+1,200 (Note 3)	657,297	19,682
C. Taxpayer Service	130,897	3,533	+ 37,840	+1,500 (Note 4)	168,737	5,033
D. Enforcement Litigation and Rulings	70,363	1,639			70,363	1,639
4. Information Returns Program			+ 40,000	+1,600 (Note 5)	40,000	1,600
TOTAL	3,291,551	91,761	+293,980	+9,600	3,585,531	101,361

TABLE 2 (cont.)

Note 1. Amount to be added to the Returns Correction Program, to permit Service Center contacts with 100,000 additional taxpayers to correct discrepancies on their returns, resulting in $38 million in additional revenue and enhancing voluntary compliance.

Note 2. Amount to be added to Examination Program, to permit audits of 252,000 additional taxpayers and raising audit coverage from 1.50 to 1.75 percent. Additional revenue yield would be $1.8 billion.

Note 3. Amount to be added to Collection Program to permit closing 221,000 additional taxpayer delinquent accounts and yielding additional revenue of $646 million. This would permit the first reduction in delinquent account inventory in 8 years.

Note 4. Amount to be added to Taxpayer Service Program to permit toll-free telephone, walk-in, and correspondence assistance to 22.7 million additional taxpayers, or 7 out of 10 taxpayers requesting assistance.

Note 5. The Information Returns or Document Matching Program is a multi-functional program with elements in several budget accounts. The increase would permit processing of 100 percent of paper documents, increase the percentage of unreported income and non-filer leads acted on, and yield net additional revenue of $188 million.

TABLE 3
REVENUE FROM NTEU'S RECOMMENDED BUDGET ($300 million additional) FOR IRS IN FY 1984

	ADDITIONAL REVENUE (millions)	
	FY 1984	FY 1984-1988
Increase in Returns Correction Program	38.0	190.0
Increase in Examination and Appeals Program	1,800.0	9,000.0
Increase in Collection Program	646.0	3,230.0
Increase in Information Review Program	188.0	940.0
TOTAL	2,672.0	13,360.0

TABLE 4
RETURNS EXAMINED AND AUDIT COVERAGE
FY 1978-FY 1982

Fiscal Year	INDIVIDUAL Number Examined	 Audit Coverage (%)	PARTNERSHIP Number Examined	 Audit Coverage (%)	CORPORATION Number Examined	 Audit Coverage (%)
1978	1,845,242	2.16	27,828	2.44	147,340	8.01
1979	1,844,986	2.11	30,474	2.55	142,937	7.44
1980	1,833,858	2.02	23,041	1.79	133,593	6.48
1981	1,644,104	1.77	22,113	1.62	107,363	5.05
1982	1,455,256	1.55	23,084	1.63	107,705	4.73

TABLE 5
INDIVIDUAL RETURNS EXAMINED AND AUDIT COVERAGE
FY 1981-1982

	1981		1982	
Non-Business Returns	Returns Examined	Audit Coverage (%)	Returns Examined	Audit Coverage (%)
Form 1040, TPI Under $10,000	150,824	1.76	83,147	.98
TPI $10,000 - $25,000	365,450	3.13	275,832	2.45
TPI $25,000 - $50,000	471,802	3.17	512,096	2.90
TPI $50,000 +	176,033	7.83	187,702	5.68
Business Returns				
Schedule C, TGR Under $25,000	33,085	1.42	30,748	1.68
TGR $25,000 - $100,000	69,984	3.98	69,370	3.97
TGR $100,000 +	63,114	7.12	54,684	5.94

Note: Overall audit coverage was 1.84 percent in FY 1981 and 1.63 percent in FY 1982. Coverage for individual returns only was 1.77 percent in FY 1981 and 1.55 percent in FY 1982.

TABLE 6
SEPARATION RATES FOR KEY IRS OCCUPATIONS

Fiscal Year	Internal Revenue Agents	Revenue Officers	Tax Auditors
1967	10.4	11.1	12.4
1968	10.4	11.0	11.0
1969	8.9	7.2	7.5
1970	8.6	7.9	9.1
1971	6.8	8.2	12.0
1972	6.6	7.8	10.3
1973	7.8	8.3	10.6
1974	6.4	7.4	11.7
1975	6.4	6.6	9.6
1976	4.7	6.0	7.0
1977	7.5	7.3	9.5
1978	8.6	8.4	10.9
1979	10.5	9.3	10.0
1980	11.6	9.9	11.2

Source: Internal Revenue Service

TABLE 7
NUMBER OF TAXPAYERS REQUESTING IRS ASSISTANCE VS. NUMBER ACTUALLY ASSISTED
FY 1976-1984

FY	Number of Taxpayers Filing Individual Returns (millions)	Number of Taxpayers Requesting IRS Assistance (millions)	Percent Requesting Assistance	Number of Taxpayers Assisted (millions)	Percent Assisted
1976	85.6	45.0	52%	41.9	93%
1977	86.4	47.0	54%	40.2	86%
1978	87.4	44.7	51%	38.0	85%
1979	90.8	48.6	53%	41.0	84%
1980	93.2	54.4	58%	43.0	79%
1981	94.0	60.2	64%	44.8	74%
1982	95.5	64.0	67%	47.4	74%
1983	95.9	68.0	71%	46.7	69%
1984 (Administration proposal)	98.4	72.0	73%	29.3	41%
1984 (NTEU Alternative)	98.4	72.0	73%	52.0	72%
1984 (Restoration of Administration's Proposed Cutback)	98.4	72.0	73%	46.7	65%

U.S. CUSTOMS SERVICE

STATEMENT OF WILLIAM SAMUEL, LEGISLATIVE STAFF MEMBER, NATIONAL TREASURY EMPLOYEES UNION

Mr. SAMUEL. Thank you, Mr. Chairman. I appreciate the opportunity you've given us to testify.

Despite the obvious mandate of Congress which has for the past several years restored the staffing levels which were cut by the administration in their budget requests, customs has once again submitted a budget which flies in the face of the over-riding national need for an adequately staffed Customs Service.

We believe that Congress and the public demand a customs service which is prepared to meet the growing challenge of narcotics smuggling, which is growing at a phenomenal rate, and had led to an almost epidemic level of crime in our cities. In fact, it is estimated that about 90 percent of illegal drugs come from abroad, and that about 40 to 60 percent of the crimes in our country are related to drugs and drug abuse.

We believe that Congress demands that Customs provides for efficient clearance at our Nation's ports of entry, without sacrificing enforcement, and to avoid the type of conjestion which last year resulted at the JFK Airport in New York in nearly a riot with passengers waiting for several hours, and finally picking up their bags and walking through the gates, bypassing clearance.

We believe, finally, that Congress and the public require that Customs stand ready to enforce import quotas and other trade restrictions which protect our basic industries, including autos, steel, and textiles from unfair foreign competition, and to vigorously pursue the investigation of commercial fraud and the illegal export of critical technology.

This export not only undermines our security, but adds millions of dollars to our defense budget.

Mr. Chairman, in all of these areas, the fiscal year 1984 request is woefully inadequate. It seeks to cut 2,000 positions, including over 800 inspectors, which is 50 percent of the inspection work force, 300 import specialists, which is one-third of the current number of import specialists, and about 100 patrol officers.

Mr. Chairman, as I mentioned, Congress has made a commitment to reject any weakening of the Customs enforcement or revenue collection activities over the past several years.

Now, unfortunately, restoring these positions in fiscal year 1984 which would amount to a status quo budget will actually weaken the Customs Service.

Customs has failed to keep up with the almost 10 percent annual increase in passenger and cargo traffic which over the past 10 years has equaled an approximate 100-percent increase in its workload.

The Congressional Budget Office recommends that Congress add $53 million to restore the cuts made by the administration to simply maintain the current level of services.

Once again, we believe that the committee must go further and add $25 million, for at least an incremental increase, of 450 inspectors, 150 import specialists, and 50 patrol officers, or a total of 650 additional positions above the fiscal year 1983 level.

In fact, this morning the Trade Subcommittee of the House Ways and Means Committee did vote to add $25 million to that request for that purpose.

Mr. Chairman, despite Customs' claims that it can do more with less, and I've sat through years of hearings where Customs sanguinely reports that they can do more with less, that automation and greater selectivity are the answers to Customs law enforcement needs, the administration is also the first to point out that alert Customs employees are responsible for major drug seizures, and for uncovering illegal shipments of computer parts to the Soviet Union.

Clearly the situation calls for more alert and experienced Customs employees, not less.

Before I conclude, I would like to point out two other issues that we hope will be addressed by the committee when it meets to consider the fiscal year 1984 funding level.

One is the centralization of appraisement. We are very pleased that the committee will be holding a hearing on Monday on this proposal. We continue to oppose the transfer of import specialists out of their current ports, and about 35 locations. We believe this is a disservice both to the import community and to the revenue which is collected by the U.S. Government.

Finally, we hope that the committee will look into a problem which arose this year when Customs issued a directive authorizing the waiver of minimal duties and Federal excise taxes from arriving passengers.

In some ports, duties of less than $10 are being waived at this point, and in others $25 is being waived. The cost to the Treasury is clearly in the millions of dollars each year, and the only savings that we can identify might be in a few cashier positions, certainly not enough to offset the loss in revenue.

Since inspectors must continue to check baggage and compute the duty, and the Treasury needs every dollar it can collect, we strongly urge the subcommittee to bar the use of appropriated funds to continue to implement this program.

PREPARED STATEMENT

Thank you, Mr. Chairman. Myself and my colleagues would be happy to answer any questions you have at this time.

[The statement follows:]

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT, AND JERRY D. KLEPNER, DIRECTOR OF LEGISLATION, NATIONAL TREASURY EMPLOYEES UNION

Mr. Chairman and distinguished members of the Subcommittee: As the exclusive representative of over 125,000 Federal workers including all employees of the U.S. Customs Service worldwide, we are pleased to appear before you today to discuss the appropriation for the U.S. Customs Service for Fiscal Year (FY) 1984.

The Appropriations Subcommittee's annual review of Customs' programs and resources has proven invaluable to ensuring effective congressional scrutiny of the Administration's funding requests for this vital law enforcement agency. As the Subcommittee well knows, countless national interests have a stake in effective enforcement of our Customs laws, including business, labor, agriculture, and the travel and tourism industry. Moreover, our country's long-term health and security depends upon effective policing of our borders, halting the flow of critical technology to unfriendly nations, and interdicting the illicit drug traffic that has such a crucial effect upon the level of violent crime.

We cannot protect these interests and achieve these goals without providing Customs with adequate capability for enforcing the Customs laws. In recent years, this has required a gradually increasing level of resources, because of the strong growth of international trade and tourism, the need to protect our domestic automobile and steel industries, the escalating drug threat, and our strategic interest in export control. The key question then is: "How much is enough?" To answer this question, we need to weigh the cost of additional resources against the costs to society of inadequate enforcement of the Customs laws.

Under the Reagan Administration, the Office of Management and Budget has basically opted to shut its eyes to the growing Customs workload and the costs of law enforcement to our vital interests. In each of the Reagan budgets for the Customs Service, in FY 1982, FY 1983, and sadly FY 1984, OMB has chosen to keep the total appropriation for the Service at essentially the same level as the previous year. This has forced OMB to propose huge personnel reductions in order to maintain essentially constant outlays.

These Reagan budgets, which called for a decline in the level of real Customs resources in the face of a growing workload, were totally unrealistic and were so perceived by Congress and the travel and trade communities. Last year, OMB recommended a reduction of 2,600 permanent positions, including 1,200 Inspectors, in order to maintain funding at the level of $499 million. With this Subcommittee in the lead, Congress decisively rejected this budget by restoring all the positions cut and providing additional funds for export control and narcotics enforcement, with a funding level of $544 million. Including the supplemental for pay and the new Medicare tax, the FY 1983 total funding level is $571 million.

The Administration's request for Customs in FY 1984 is cast in the same fiscal straitjacket as last year. This budget contains some welcome increases which we have long advocated, such as additional funding for Operation Exodus, drug enforcement, and procurement of a second air module for air patrol operations. However, these increases are paid for by offsetting reductions in personnel totaling 2,000 positions, including 820 Inspectors, 300 Import Specialists, and 100 Patrol Officers. In addition, OMB proposes a further cut of 170 Inspectors because of a decrease in reimbursable funds, which stems mainly from a reduction in the Department of Agriculture's appropriation (the Animal and Plant Health Inspection Service of DOA reimburses Customs for a certain number of Inspector positions used to perform agriculture protection functions). The total FY 1984 funding level requested by OMB is $578 million, a mere $7 million above the FY 1983 authorized level with the supplemental.

We can see in this budget very clearly the effects of a freeze in the dollar level of this agency's spending. The freeze requires an actual cut in real resources of $80 million (the dollar cost of 2,170 positions) or 12 percent. Measured in terms of the decrease in positions, the real reduction is 15 percent of total staff-years. In addition, RIF costs totaling $20 million would be incurred including funds for severence pay, annual leave and unemployment compensation.

We have computed that a maintenance budget for FY 1984, which provides for the program increases proposed by the Administration, and fully restores the reduction of 2,170 positions, is $60 million above the Administration's request. This maintenance budget would allow $639 million and 13,918 average positions and would save $20 million in RIF costs.

However, such a budget makes no provision for workload growth at the nation's air, land, and sea ports, or for improved border enforcement against the escalating threat of drug-runners and illegal immigrants. Consequently, NTEU recommends an additional $15 million above the maintenance budget, to provide for an additional 200 Inspectors, 150 Import Specialists, and 50 Customs Patrol Officers. We believe this budget to be the minimum essential requirement for effective Customs operations in FY 1984, and we strongly recommend that the Subcommittee authorize our budget of $654 million and 14,318 average positions.

To summarize, the NTEU recommended budget would:

-- restore the 2,170 positions recommended for elimination by the Administration;

-- fully fund the program increases for Operation Exodus, the Summer Olympics, organized crime drug enforcement, second air module, and ADP equipment supported by the Administration;

-- provide for an additional $15 million and 400 average positions for personnel in critical line functions where there is presently a huge gap between workload and resources.

Mr. Chairman, the NTEU recommended budget is $75 million above the President's budget request for Customs. This is a large amount. However, we would like to stress that all but $15 million of this amount would be used to restore 2,170 positions recommended for elimination by the Administration. The seemingly large increase we have recommended is due to the totally unrealistic reductions proposed by the Administration -- reductions that were decisively rejected by the Congress in the FY 1983 Continuing Resolution passed a scant 60 days ago.

In your deliberations on whether to adopt the NTEU proposal, or to accept some or all of the cuts proposed by the Administration, we ask the Subcommittee to keep in mind the following points.

First, the FY 1983 budget approved by Congress provided the first increase in Customs resources in eight years. From FY 1975 to FY 1983, Customs resources remained essentially static (see Table 1 appended to the end of our testimony) despite a 65-80 percent growth in workload during that period. The increase made in FY 1983 went almost entirely to two new programs, Operation Exodus and the South Florida Drug Enforcement Operation.

Second, NTEU has consistently maintained, and the reports of this Subcommittee and the General Accounting Office have confirmed, that for almost a decade Customs has been stretched thin by a growing imbalance between workload and resources, leading to wide areas of minimal enforcement or non-enforcement. Examples are inadequate controls over outbound shipments, only general supervision of cargo unlading, inspection of barely .3 percent of containerized shipments which comprise 70 percent of seaborne cargo, reduced oil import gauging, and a virtual "honor system" for yachts and boats entering our seaports. These conditions, which still exist despite the additional resources provided in FY 1983, are symptomatic of a general breakdown in enforcement that will require several years of growing resources to correct.

Third, Customs is a revenue-producing agency which collects an average of $19 for every dollar spent. An incremental increase in Inspectors or Import Specialists would yield a minimum return of 3 to 1, according to Customs. GAO studies have indicated that much revenue is lost from inadequate inspection of containerized cargo and inadequate verification of merchandise entries. The evidence strongly indicates that Customs is definitely operating at resource levels where additional staff would yield revenue increases greater than their cost.

Fourth, while it may be tempting to make economies, as has been the practice in recent years, at the expense of a law enforcement arm such as the Customs Service, in the long run this is extremely unwise because reductions only rebound as increased costs in other parts of Federal, State, and local budgets.

The Administration's FY 1984 budget proposal would result in the wholesale dismantling of the protections afforded the American manufacturer, the American worker, and the public through effective enforcement of the Customs laws. Once again the burden is on Congress to formulate a rational policy, and to begin this year by providing essential resources to eliminate congestion at our ports of entry, stem the decline in enforcement, and lay the foundation for a modern, effective Service in the future.

We welcome the opportunity to participate in this task as the representative of the thousands of dedicated Customs employees whose service is of inestimable value to the nation, yet who have been remarkably ill-served by this Administration.

In the remainder of our testimony, we would like to call attention to the manner in which our society and economy are dependent upon Customs law enforcement, and the social and economic costs of inadequate enforcement. We would then like to discuss each of the principal areas of Customs activity -- Inspection and Control, Tariff and Trade, and Tactical Interdiction -- in some detail, reviewing major problems and issues in each. We will conclude with our recommendations for an alternative budget for Fiscal Year 1984.

Social and Economic Costs of Inadequate Enforcement

As the nation's principal border enforcement agency, Customs is responsible for processing the flow of merchandise and travelers at over 300 ports of entry, and for interdicting the movement of illegal narcotics and contraband between these ports. With approximately 15,000 full- and part-time personnel, Customs watches over a frontier that is 26,000 miles in length as the crow flies, and 100,000 miles if measured by the length of the tidal shoreline.

In recent years, as the economy has become increasingly open to foreign trade, international travelers have visited our country in record numbers, and illegal narcotics traffic and immigration has risen, the challenge to Customs enforcement has increased and brought with it a requirement for additional resources. The question then becomes one of weighing the cost of the additional resources against the costs to society of not adequately enforcing the Customs laws. The following are important national interests protected by Customs, where lax enforcement would be extremely costly to the economy and society.

1. Controlling the Export of Critical Technology

Until recently, one of the largest areas of Customs staffing deficiency was the outbound clearance of exports. Faced with a rising tide of imports, the resources for monitoring exports were gradually withdrawn. Even spot-checks of outbound shipments were seldom made.

The costs of such negligence have now been driven home by the discovery by the Federal Bureau of Investigation of a pervasive pattern of activity by Soviet agents to pry away the secrets of American high technology by means of bribes and other inducements to obtain products on our export control lists. Their targets are lasers, fiber optics, computers, and telecommunications equipment.

In addition, the importance of technological competition in maintaining ascendancy in the world economy has led to cases of industrial espionage, such as the well-publicized Japanese attempt to steal the trade secrets of the International Business Machines Corporation.

In 1980, the president of Spawr Optical was convicted of shipping about 50 high-energy laser mirrors to a laser research laboratory in Moscow. After being denied an export license for shipment of the mirrors, Spawr deliberately understated their value to the Customs Service and made the delivery through Swiss and West German intermediaries.

Two top officials of a California computer firm were convicted in 1980 of shipping more than $1 million worth of computer machinery to the Soviet Union without a license. The machinery was crated with air conditioners and washing machines and sent through Germany and the Netherlands to Moscow.

In January, 1983 a former CIA official and two business associates were indicted on charges of conspiring to sell a $5 million diesel engine assembly line to the Soviet Union in violation of U.S. export laws. The charges were the result of an undercover sting operation run by the Customs Service through a fictitious Paris-based company, as part of Operation Exodus.

Similar charges have also been filed against a Canadian firm and two of its executives alleging they conspired to ship tank engines to Iran. This investigation was also part of Operation Exodus, but originated in documents discovered by an alert Inspector at Dulles Airport.

Operation Exodus was initiated by Customs in late 1981 to step up enforcement of the export control laws, The Export Administration Act of 1979 (50 U.S.C. 2401), and The Arms Export Control Act (22 U.S.C. 2778). The program began as an experiment with 130 Inspectors, Customs Patrol Officers, and Special Agents operating as three-person teams to conduct spot-checks of outbound shipments and follow up investigative leads at ten ports of entry. The program has proven successful thus far, and has been expanded through increased funding provided in both the FY 1983 and 1984 budgets.

Counting the FY 1984 increase, Operation Exodus is now being funded at the $30 million level, whereas just a year ago outbound inspection was virtually non-existent. Clearly, the Reagan Administration has concluded that the cost of providing the necessary resources is far outweighed by the cost to the nation of illegal exports of critical technology.

This conclusion is supported by the findings of the Senate Permanent Investigations Subcommittee after a two-year inquiry. The Subcommittee report found that the Soviets are engaged in a massive effort to acquire Western technology by any means, and the Soviets have been able to use such technology to modernize and speed the development of military weapons systems. Naturally, such advances entail coutervailing responses by our own military establishment, and this increases the size of our defense budget.

A highly classified Defense Department document, which was reported on by columnist Jack Anderson in an article, "High-Tech Pipeline to Moscow" in the December 26, 1982 edition of the Washington Post, listed notable successes by the Soviet intelligence community in 13 key technology areas, including electro-optic sensors, radar, anti-submarine devices, propulsion, material alloys, energy storage, navigation, lasers, aircraft and electronic components, signal processing, micro-electronics, and computers. Given the extensive range of Soviet technological espionage, it seems reasonable that the loss of such strategic information could eventually add billions to the U.S. defense budget.

The Senate Permanent Subcommittee on Investigations has called for a stronger enforcement effort to halt the export of high technology to our nation's enemies. We urge the Trade Subcommittee to take a close look at this area, and provide the resources for an adequate export control program. Given the huge dimensions of the problem, and the many ways of obtaining U.S. military and industrial secrets, it is quite conceivable that a program on the order of $50 to $100 million would be a bargain when compared to the additional costs to defense of the loss of critical technology.

2. Interdicting the Drug Trade

The retail value of illicit drugs supplied to the U.S. market in 1980 is estimated by the National Narcotics Intelligence Consumers Committee (a task force of the principle Federal agencies concerned with the drug problem) to be $70-$90 billion, more than the combined profits of the Fortune 500 companies and double the volume of drug sales two years earlier. Today in America there are an estimated 492,000 heroin addicts, 25 million people who use marijuana at least monthly, 10 million cocaine abusers, and more users of dangerous pills such as quaaludes than ever before.

Approximately 90 percent of the drugs abused in this country come from abroad, including all of the heroin, cocaine, hashish, and 93 percent of the marijuana. According to the House Select Committee on Narcotics Abuse and Control, no more than 10 percent of this drug traffic is interdicted. In 1980, an estimated 44 metric tons of cocaine entered this country; of this amount, 3.5 metric tons, or 8 percent, was seized by drug enforcement agencies. Only about 6 percent of the 4 metric tons of heroin entering the U.S. in 1980 was interdicted.

The regional impact of the illicit drug traffic is particularly severe in the Southeastern United States. An estimated 70 percent of the cocaine, 80 percent of the marijuana, and 90 percent of the quaaludes smuggled into the U.S. come through Florida, Georgia, and the Carolinas. In Florida alone, the drug traffic is the highest in the nation, estimated at $7-

$10 billion annually. Georgia is the third highest state in drug traffic (ranking just behind Texas). As Federal and State enforcement efforts have been stepped up in Florida, drug runners have shifted their operations to Georgia, the Carolinas, the Gulf Coast, and Virginia.

When one considers events of the past year, it is no exaggeration to say that the entire Southeastern part of the country is now in the throes of crime and corruption fostered by the lucrative profits of the drug trade. Miami's drug wars and epidemic of violent crime is well known. In Georgia, law officers have been offered sums up to $50,000 to look the other way when drug shipments arrive by air or sea. During the past year, undercover operations by State and Federal agents have led to the arrests of a Georgia State Senator who promised drug smugglers carte blanche if they financed his bid for governor, six sheriffs and ex-sheriffs, two police chiefs, two county commissioners, six deputy sheriffs, two state troopers, nine police officers, a police narcotics squad secretary, one agent with the Georgia Bureau of Investigation, one county prison warden, two deputy prison wardens, a state forest ranger, and eight Coast Guard sailors guarding the coast against smugglers (reported by Art Harris in the Washington Post, June 15, 1982).

During last October alone, Georgia authorities recovered $600 million worth of cocaine in duffel bags dropped from planes into cow pastures in the Northern part of the State. The large number of remote landing areas and the dearth of law enforcement officers in rural parts of the state, combined with the escalating drug threat, caused Governor George Busbee to order the Georgia National Guard to use its planes and helicopters as part of the state's anti-drug smuggling force. The Governor's order, which went into effect last November, tripled the state's capability for intercepting illegal drug shipments and made control of drug trafficking the highest priority for all law enforcement agencies in the state.

In North Carolina, the head of the FBI's Charlotte office, Robert L. Spence, has called narcotics traffic there "the number-one growth crime today". Virginia, too, has experienced increased drug traffic by air and sea, prompting Governor Charles Robb to propose to the state legislature last December that the National Guard be used in the fight against drug traffickers. According to the Governor, his proposal was prompted by a statewide surge in drug-related crimes caused in part by the growing presence of Florida and South American-based smugglers in Virginia's coastal waterways.

The high rate of drug use in the nation is intimately linked with the rate of violent crime that has been plaguing our citizens. According to the Attorney General's Task Force on Violent Crime, one of the recurrent themes of its hearings was the importance of more effectively combatting narcotics traffic. "From Washington to Los Angeles, from Detroit to Miami, we have heard drug officials and scholars stress the connection between drugs and violent crime," the Task Force stated. Law enforcement authorities estimate that between 40 and 60 percent of all serious crimes occurring in the United States during 1981 are drug-related.

The number of reported crimes in the country increased 9 percent between 1979 and 1980, reaching an all-time high in the latter year and maintaining this level in 1981. In 1982, it appears that total reported crime may have receded about 5 percent, but this is no cause for complacency. In an address last fall at the Justice Department, President Reagan stated that "crime today is an American epidemic. It touches nearly a third of the American homes and results in about $8.8 billion a year in financial losses."

In addition to the social costs of violent crime, the burden of drug use has a significant impact on the nation's health care system, the employment market, and social services. All of these impose direct costs upon Federal, State, and local budgets. For example, in 1980 there were 32,000 admissions to Federally-funded drug treatment programs associated with heroin and cocaine use alone. In a study completed for the State of New York, former Health and Human Services Secretary Joseph Califano estimated last year that the cost of drug addiction in terms of health care and lost work days was more than $40 billion a year. Califano also made public the results of a Rand Corporation study that showed that prison inmates addicted to heroin (a $50-a-day habit) had committed six times as many robberies, ten times as many burglaries, and four times as many thefts and assaults as non-addicted inmates.

In the face of this evidence, there is little doubt that a much stronger drug enforcement effort is needed if the nation is to be spared the extraordinary economic and social costs of rampant drug abuse and violent crime. While evidence indicates that marijuana use appears to be leveling off, cocaine and heroin use have risen sharply in the past two years and have reached epidemic proportions in our Eastern Seaboard States.

The Administration's own Task Force on Violent Crime has called for a "clear, coherent, and consistent enforcement policy with regard to narcotics and dangerous drugs," to include "a border policy designed to effectively detect and intercept the illegal importation of narcotics." The Task Force stated:

> "We wish to emphasize that the Federal government's first priority should be to provide adequate resources to its own offices which are involved in fighting violent crime."

Yet the Customs Service, which is on the front line in this struggle as the nation's principle border enforcement agency, is to be reduced by 1,436 staff-years in its Inspection and Tactical Interdiction resources under the Administration's budget proposal. We believe that to propose a reduction in the number of Customs Inspectors and Patrol Officers while the drug threat remains critical is the height of irresponsibility. Considering the huge costs the drug trade is imposing on our society, we believe the most prudent course of action would be for the Congress to completely restore these positions and augment them by a minimum of 250 additional personnel.

3. Enforcing the Trade Laws

It has become increasingly evident in recent years that the ready access of foreign manufacturers to markets in this country is costing American jobs. Imports have added significantly to unemployment, and rising unemployment has strained the ability of Federal, State and local budgets to provide needed welfare, job retraining, and social services.

Enforcement of the nation's trade laws protects the American economy by preventing the entry of merchandise without payment of the appropriate duty, or outside an established import quota. By assessment of countervailing duties, American firms are protected from unfair (subsidized) foreign competition. Entry is also barred for products which violate the patents or copyrights of American firms, or violate laws designed to protect the public health and safety or the environment.

U.S. Customs Service Inspectors and Import Specialists have been a bulwark in protecting our economy against an avalanche of government-subsidized foreign steel, which surged to record levels in 1981. Last year, European Common Market countries were selling carbon steel products in the U.S. at $500 a ton, with a government subsidy of $130 a ton. Our domestic steel industry has been operating at 31 percent of capacity, and 45 percent of the work force -- 200,000 persons -- were thrown out of jobs. The Commerce Department estimates that for every 1 million tons of imported steel, 25,000 to 30,000 jobs are lost.

In January, 1982 U.S. steel companies filed suit for relief through application of countervailing duties. Last summer, the International Trade Commission and Commerce Department agreed, resulting in the imposition of additional duties of up to $250 a ton on steel imported from seven European countries, South

Africa, and Brazil. The Customs Service collected the data on which these findings were based, and later implemented collection of the countervailing duties equal to the estimated subsidy.

This strong enforcement stand strengthened the hand of the Federal government in negotiations with European steel producers, and last October the Commerce Department was successful in concluding a quota agreement that will limit European steel imports on 11 carbon steel products to 5.12 percent of the American market until 1986. This quota agreement will, of course, be implemented and enforced by Customs.

However, it should be noted that Europe accounted for only 6 million of the 20 million tons of steel imported to this country in 1981. If the gap left by the Europeans is not to be filled by other steel exporters -- chiefly, Japan, Korea, and Brazil -- Customs will need to continue to monitor steel imports from these countries. Moreover, the European agreement did not effectively cover imports on steel pipe and tubing which have harmed American producers. It will fall to Customs to monitor these shipments closely until this problem is resolved. Protection of our specialty steel producers will also depend upon Customs' import documenting and fact-finding capability.

If steel shipments are not physically verified, and documents stating country of origin, price, and quantity are not examined for accuracy, our trade law enforcement in this vital area will become a dead letter. Yet this is precisely what the Administration is proposing with its cut of 820 Inspectors and 300 Import Specialists for FY 1984. What would be the cost of the jobs lost, and the attendant unemployment, welfare, and social costs, from law enforcement compared to the $60 million it would cost to restore these positions?

We must not forget that a similar drama is being enacted in the American automobile industry, where 280,000 workers are now unemployed, compared to 213,000 a year ago. Despite a voluntary quota agreement limiting Japanese imports to 1.68 million passenger cars, the Japanese share of the U.S. market rose to 22.6 percent last year -- the highest in history. News accounts indicate that in all probability the present agreement, which expires on March 31, will be extended for a third year.

It is still unclear whether additional relief will be required to save American jobs and rejuvenate the automobile industry. At the present time, the Customs Service is responsible for monitoring the volume of automobile imports, classifying shipments in accordance with U.S. tariff schedules, and collecting appropriate duties. Should a quota be adopted, it is clear that the burden of implementing such a policy will fall squarely upon the Customs Service. Considering the real possibility of such action, the shortsightedness of a cutback in the Inspectional and Classification and Valuation resources of the Service at this juncture becomes readily apparent.

When important national interests are at stake, protecting American industries through import restrictions is one of the many policies that need to be considered. We submit that this country should not unilaterally disarm itself by cutting 20 percent of its Inspectors and 28 percent of its Import Specialists, as the Administration proposes.

4. Serving a Growing Domestic Tourism Industry

One of the major factors affecting Customs resource needs is our national policy of encouraging foreign visitors to this country. This has led in recent years to the rapid growth of passenger arrivals at our land, sea, and air ports of entry, visibly taxing Customs' processing capabilities. Moreover, as many of our cities and regions seek to participate in the growing tourist trade by becoming international gateways, the inability to provide adequate Customs personnel to staff these new facilities is becoming painfully apparent.

This country has too much to lose by allowing Customs to become a hindrance to the expansion of our tourism industry. Foreign visitors are now coming to the U.S. at the rate of 20 million a year, about 8 million from overseas (Canada and Mexico have consistently accounted for the largest number of foreign visitors). In 1980, foreign visitors spent an estimated $12 billion in the United States, producing approximately $1.4 billion in Federal, State and local tax revenues. Moreover, between 1970 and 1979 these expenditures grew by more than 250 percent, well ahead of other measures of economic activity.

The travel and tourism industry is now the third largest industry in the United States, employing more than 6 million Americans and producing more than $118 billion in annual sales. Commerce Department statistics show that more than a million establishments benefit directly from foreign tourists' spending in this country. More than 95,000 jobs were directly supported by foreign visitors food purchases alone in 1978.

Nevertheless, 1982 was a lackluster year for international travel to this country. The overall number of foreign visitors declined 9 percent. While most of the loss was accounted for by a drop in visitors from Great Britain, West Germany, France and Canada declined as well. Since 1982 was a year of deep recession for the world economy, it can be safely assumed that international travel growth will resume with economic recovery.

Even more serious, however, is the fact that the U.S. market share of international tourism has been falling in recent years. According to the Travel and Tourism Government Affairs Policy Council, the United States now gets only 8 percent of foreign tourists, and this figure is still trending down. The reason for this, according to the Secretary-Treasurer of the Congressional Tourism Caucus, Representative William H. Boner, is the long Customs lines that greet foreign visitors, and inadequate travel promotion.

Both of these causes may be traced to the Reagan Administration's shortsighted budgetary policy. The proposal to cut 820 Customs Inspectors at a time when the Air Transport Association, after a thorough survey, found that a minimum of 230 additional Inspectors was needed at airports alone, can only serve as a deterrent to foreign travel and cost this country millions of dollars in lost business.

In a demonstration of massive unwisdom, the Administration has also proposed to zero out in FY 1984 all funding for the U.S. Travel and Tourism Administration. It is proposing this action despite the fact that the U.S. gets $18 back for every dollar spent on overseas travel promotion. We can think of no more retrograde action, at a time when jobs and income are so important to our economy, than to turn our back on the sound program of the National Tourism Policy Act which President Reagan signed into law in October, 1981. The U.S. Travel and Tourism Administration should be fully funded at the minimum level of $14 million which it requires to do an adequate job of promoting travel to this country.

While travel promotion is the purview of other committees of the Congress, the Treasury Subcommittee has the ability to do something about the frequent congestion and overtaxing of facilities occurring at our air, land and sea ports. This problem is caused mainly by the low number of Inspectors attempting to keep pace with the growing number of visitors over the past decade.

If the U.S. is to exploit its natural advantages as a Mecca for foreign visitors, the Customs Service must be provided with an adequate number of Inspectors to reduce present congestion and accommodate the expected growth in future traffic. Besides the 230 additional Inspectors specified by the Air Transport Association for our airports, many of our land border ports such as San Ysidro, Laredo, and Niagara Falls are experiencing lines two to three hours long. Taking matters into its own hands because of the intolerable situation that exists at some locations, the House last year voted an additional $5 million for more Inspectors at our land ports in the Southwest.

This Subcommittee has taken the lead in requiring Customs to develop new inspectional techniques to facilitate the processing of travelers while not reducing enforcement. As you are aware, last year the Federal Inspectional Services (FIS), composed of Customs, Immigration and Naturalization Service, and the Animal and Plant Health Inspection Service of the Department of Agriculture, tested at Miami and Los Angeles International Airports a new inspection procedure known as ASIST, the Accelerated Special Inspection System Test. We will discuss the FIS report of this test in detail in our testimony, but here we wish to make one point, which is that staff savings failed to materialize as a result of the new inspection procedure. In fact, the GAO report on the test found Customs staffing in Miami to be inadequate. In our experience, there is simply no way to get around the problem of adequate staffing if large numbers of passengers are to be processed while maintaining enforcement.

We strongly urge the Subcommittee to consider the need for additional Customs Inspectors in light of the contribution of the travel and tourism industry to the U.S. economy. Certainly, the advantages to the nation's balance of payments, plus the additional jobs and tax receipts accruing from tourist expenditures, would far outweigh the cost of several hundred additional Inspectors.

5. Safeguarding American Agriculture

One of the principle missions of the U.S. Customs Service is to prevent the introduction into this country of foreign plant or animal pests that would endanger American agriculture. Considering the paramount role of the nation's $500 billion agriculture industry, and the enormous costs of eradication should an outbreak of disease occur, an adequate level of baggage inspection at our ports of entry is an absolute necessity. The possible introduction by an unwary traveler of pests that could seriously damage our ecology is an ever-present danger that our country has been able to forestall by the sound policy of passenger baggage inspection at our borders.

For this task, the Department of Agriculture has in the past reimbursed Customs for the cost of 221 Inspector positions. Customs Inspectors perform primary inspection of travelers arriving by air and sea. Based on the declaration form, the finding of agricultural items, and in some cases, a passenger profile provided by the Animal and Plant Health Inspection Service (APHIS), the Customs Inspector may refer the passenger to a Plant Protection and Quarantine Officer for secondary agricultural inspection.

The importance of this task was driven home in 1981 by the Mediterranean Fruit Fly infestations in California and Florida. Those infestations cost more than $50 million to eradicate. It has been estimated that a general infestation by this pest, which feeds on over 800 different fruits, would cost $200 to $250 million annually in agricultural losses.

The U.S. has not experienced an outbreak of Foot and Mouth Disease since 1929, though countries as close as Great Britain and Brazil have not been so fortunate. The Agriculture Department estimates that it would have a $10 billion impact on the livestock industry if introduced in this country today. Our system of agricultural protection must be working if we have thus far kept out this disease, but we cannot afford to let down our guard.

African Swine Fever, which has recently made an appearance in Cuba and the Dominican Republic, is another animal disease which may enter through pork products contained in passenger baggage or airplane waste. There is no known treatment for the disease, which would cause $2 billion in losses the first year.

The soil from plants carried by unwary travelers serves as a means of transport for many pests, which could increase crop losses from 5-10 percent if introduced into this country.

Passenger-carried meat and meat products also pose a serious threat. In FY 1980, 123,128 individual lots of meat and meat products totaling 305,635 pounds were confiscated from arriving air travelers. These products represented a potential source of animal disease that could severely damage our livestock industry.

In light of these facts, one can imagine our dismay when NTEU was informed by Customs only three months ago that, as a result of a reduction of $1.8 million in reimbursable funding from the Department of Agriculture, the Service was immediately eliminating 95 of the 228 positions devoted to hand baggage inspection at air and sea ports. As a result, baggage inspection was to be immediately reduced to the indicated levels at the following airports:

Anchorage, AK	50%
Atlanta, GA	36%
Boston, MA	27%
Chicago, IL	50%
Dallas, TX	67%
Dulles	45%
Honolulu, HI	47%
Houston, TX	56%
John F. Kennedy	45%
Los Angeles, CA	33%
Miami, FL	25%
New Orleans, LA	33%
San Francisco, CA	34%
Seattle, WA	29%

In addition, all sea passenger hand baggage inspection for agricultural purposes was being terminated, and seed sampling on our Southern border would no longer be performed.

We cannot think of a more shortsighted policy. In the past, this Subcommittee has taken a firm stand on the importance of adequate agricultural inspection as a safeguard that must not be relaxed. We urge the Subcommittee to persevere in this course, and to restore Customs funding for these positions in light of Agriculture's apparent inability to do so.

6. Halting Illegal Immigration

Customs has been playing an increasingly important role in the control of illegal immigration at land border ports and outports where no Immigration and Naturalization Service (INS) Inspector is available, and at airports where Customs and INS Inspectors are cross-trained to perform each other's missions. The magnitude of illegal immigration into the country, and the attendant social costs (lost jobs, lower wages, sweatshop working conditions, and strained community services) are fueling the call for stronger enforcement at our nation's frontiers. The problem is not limited to our land borders, but includes the nation's air and sea ports, where a growing number of aliens are attempting to gain entry through use of forged passports.

The Census Bureau estimates that there are currently 5 to 10 million illegal aliens in the U.S., and that 500,000 to 1 million more enter illegally each year. These illegal immigrants take American jobs and contribute significantly to the high rate of unemployment. The total number of unemployed, which now stands at 12 million, would be cut in half if the jobs held by undocumented workers were available to our citizens. This would relieve the U.S. budget of some $34 million in unemployment and welfare compensation.

As things now stand, the nation remains wide open to illegal immigration, and the pressure on our borders is growing every day. Last year over 800,000 aliens were apprehended attempting to cross our Southwestern frontier, and arrests were up 20 percent over 1981. In some locations, such as the Chula Vista, California border section between San Diego and Tijuana, Mexico, the number of arrests last month jumped 74 percent over the number in the first half of January, 1982. According to INS Commissioner Alan C. Nelson, Mexico's peso devaluation and economic difficulties probably account for much of this movement. But aliens other than Mexicans, including a significant number from El Salvador, are also streaming across the Southern border.

According to one estimate, if illegal immigration continues at current levels it will add 37 to 70 million people to the U.S. population in the next half-century. This will place an extraordinary burden on the nation's ability to provide jobs and an adequate standard of living for our people.

Recent studies by State and Federal authorities have found that the budgetary costs of illegal aliens are huge. Illinois' Attorney General estimates that his state loses $66 million a year in unemployment benefits paid to illegal aliens who use phony immigration documents when they apply for aid. Similar cases involving welfare and food stamps have been uncovered in California. That state's Department of Social Services discovered that hundreds of aliens in San Diego, Los Angeles, and San Francisco had submitted fraudulent forms to qualify for benefits.

The Reagan Administration is seemingly concerned about the immigration problem, but this has not stopped it from submitting totally inadequate budgets for Customs, which is on the front line in this struggle. We urge the Subcommittee to recognize the joint role of Customs and INS in carrying out this important mission, and to allocate the resources necessary to secure our society and economy from this growing burden.

PROGRAM, BUDGET AND POLICY ISSUES

We turn now to a discussion of the workload and adequacy of resources in each of Customs' principle functions: Inspection and Control, Tariff and Trade, and Tactical Interdiction. We will also focus on the major issues that deserve consideration by the Subcommittee.

Inspection and Control

There is a large and growing workload/resource imbalance in the Inspection and Control function of Customs due to the number of Inspectors failing to keep pace with the growth of international trade and tourism.

Significant indications of workload growth are that:

-- the volume of U.S. merchandise imports has been growing at an 8 percent annual rate for the past decade, and is projected by Customs to continue growing at this rate through 1985;

-- Airline passenger arrivals from abroad increased 70 percent between 1973 and 1981, a 9 percent annual rate;

-- Total persons arriving from abroad will total 340 million in FY 1984, an increase of 13 million over 1983 and 39 million over the past two years;

-- Air cargo imports have been growing at a 14 percent rate in recent years, and are projected to increase to 1.5 million tons in 1983, double the level of 1978.

In order to place these statistics in perspective, we would like to note the following points.

Some of our airports, such as Miami and Atlanta have experienced a rate of growth far above the national average, and have had a totally inadequate number of Inspectors assigned for the past three years. Atlanta alone experienced a 523 percent growth in international passenger traffic in the three-year period, 1977 to 1980. The advent of wide-body aircraft arriving at closely spaced intervals has led to peaking and congestion at all major airports, especially during the tourist season. The need to handle this traffic has placed a premium on passenger processing to the detriment of cargo inspection, with increased opportunities for smuggling.

In fact, the largest cocaine seizure in history, 3,748 pounds valued at $175 million, was made by an Inspector last year in Miami aboard an air cargo plane, concealed in a shipment of suits and dresses. Passenger couriers, however, are an equally significant drug threat. According to the National Narcotics Intelligence Consumers Committee, passenger couriers transport virtually all the heroin entering this country, and a large percentage of the cocaine continues to arrive through "body-packing" or ingestion by couriers on air passenger flights.

Last year, the number of travelers arriving from abroad, most of whom entered at our land border ports, increased by 26 million compared to a Customs estimate (in last year's budget request) of 13 million. This erroneous estimate contributed to understaffing and huge congestion at land ports of entry, and shows the pitfalls of submitting an unrealistic budget. If Customs had been permitted to plan rationally for anticipated workload growth, many of the problems that have been occuring on our Southwestern border could have been avoided, and border enforcement would not be in a state of near collapse from the weight of the traffic our thin line of Customs Inspectors have had to contend with.

Customs resources in the Inspection and Control area have remained static between 1978 and 1983. Now the Administration is proposing to reduce the number of Inspectors to below the level of 1972, despite a 100 percent growth in the number of merchandise imports and air passenger arrivals since that year. This is indicated in Table 1, which shows the trend in the number of Inspectors since 1972, and the Administration's proposal for FY 1984.

The Customs workload/resource imbalance is further illustrated by Exhibit I, appended to our testimony. This chart, taken from the Long-Range Strategic Plan prepared for Customs by the firm of Peat; Marwick, Mitchell & Company, shows actual and projected workload to 1985, and compares this workload to Customs outlays in constant dollars. The results are striking. All the workload trends are rising, but the real level of Customs outlays stays at about the 1975 level.

These facts clearly demonstrate the crux of the problem confronting the Customs Inspectional force today. Customs has essentially an uncontrollable workload, which continues to rise while the number of Inspectors has remained stable. As a result of increased demands from importers and carriers, the static work force is required to put in longer hours on the job. Overtime mounts and becomes the principle resource utilized to accommodate the growing demand for service.

As workload continues to outstrip the capacity of the Inspectional force, the point is ultimately reached where concessions are made in the form of reduced enforcement. Countless signs of this erosion exist today, providing graphic evidence of conditions that require immediate correction. Some prominent examples are:

-- Customs has been inspecting less than 1 percent of all containerized shipments, which account for over 70 percent of seaborne cargo, despite clear evidence of increased drug seizures and revenue collection when the inspection rate is increased. Last year, the number of containers inspected fell to 0.3 percent of the total number imported.

-- At many coastal ports, private vessels such as boats and yachts arriving from foreign destinations have been placed on a virtual honor system with regard to Customs inspection. Owners are permitted to notify Customs telephonically within 24 hours of arrival, and the formalities usually consist of negative replies to a few questions. Customs attempts to keep this system functioning through spot-checks, but only a tiny fraction of arrivals is ever inspected.

-- Customs has gone to a system of general supervision of vessel unloading. Instead of one Inspector assigned to a ship, the Inspector may now be required to perform inspections at docks miles apart. He must frequently leave one site for another, even though his presence would be a deterrent to smuggling at the initial location.

-- At many ports, Customs lacks the resources to exercise proper supervision over the gauging of tankers by representatives of the oil companies. As a result, Customs' role as the only independent source of data on crude oil and petroleum product imports is abnegated, revenue collections (when import fees are imposed) are jeopardized, and energy policymaking in times of emergency is undermined by the lack of reliable data.

-- In many ports and outlying areas, Customs lacks the resources to ensure the physical security of the Inspectors themselves. It is not unusual for Inspectors at many land border ports, or on the "graveyard shift" to work alone. Lone Inspectors are exposed to encounters with narcotics traffickers, fugitives, terrorists, and other criminals. Help in many instances is two or more hours away. For these reasons, NTEU has long held that sufficient numbers of Inspectors should be assigned to each port so that, for their own security, Inspectors may be teamed on isolated assignments.

On May 25, 1979 a lone Inspector on duty at the Customs station in Lynden, Washington was shot and killed while questioning an escaped felon who was entering the U.S. from Canada. Despite repeated requests from this union and members of Congress, Customs to this day has not assigned sufficient Inspectors to permit greater security at this port of entry. We strongly urge the Subcommittee to consider these facts in its deliberations on the number of Inspectors to be funded for FY 1984.

Mr. Chairman, these conditions are symptomatic of a general breakdown in enforcement which our union, as a representative of U.S. Customs Inspectors, has been emphasizing since 1978. The unvarnished truth is that there are wide areas of minimal enforcement or non-enforcement of the Customs laws today, and more are emerging. Surely it is a congressional responsibility to provide the dedicated men and women of the Customs Service with the resources they need to do the job.

Two years ago the Congress directed Customs, in conjunction with INS and the Department of Agriculture, to test new methods of passenger processing at our airports, with the object of minimizing delays to travelers while maintaining enforcement. In compliance with this directive Customs initiated ASIST, the Accelerated Specialized Inspection System Test, at the Miami and

Los Angeles International Airports. The principle characteristic of ASIST, in line with recommendations of both the General Accounting Office and the Air Transport Association, was to process passengers through a "one-stop" station where both Customs and INS primary inspections are performed prior to the passenger's claiming his checked baggage. It was reasoned that overall waiting time at the airport could be reduced if Federal Inspection Services (FIS) processing could begin while passengers were waiting for their checked baggage, which surveys have shown takes an average of 24 minutes to arrive.

Under the inspection procedure, primary screening was performed by either a Customs or INS Inspector, each of whom was to be cross-trained in the other's job. The primary Inspector had the option of referring the traveler to either a Customs, INS, or Agriculture secondary inspection station if a problem was encountered in the initial screening. Otherwise, the passenger was free to claim his checked baggage and depart. Roving Inspectors were posted in the baggage claim area and at exit control points. These Inspectors could stop passengers and refer them for baggage inspection if this was deemed warranted.

This system differed materially from current inspection procedures, which require travelers to claim their checked baggage before reporting for Customs inspection. Since all passengers are subject to baggage inspection under the current system, it could be expected that enforcement under ASIST would depend significantly on the percentage of checked baggage that was inspected. This could be measured by the number of referrals to secondary, since all passengers referred to secondary had to first claim their checked baggage.

The final report of the Federal Inspection Services on ASIST was submitted last summer. What were the results?

In Miami, 50 percent of the passengers exited the inspection facility in 33 minutes under ASIST, compared to 44 minutes pre-ASIST, for a 25 percent gain in speed of processing. Ninety percent were out the door in 66.5 minutes, compared to 74 minutes pre-ASIST, or 10 percent faster. To put these times in perspective, it should be noted that the average time for a passenger on a domestic flight to exit the terminal at Miami, from the block time of the aircraft, was 30.5 minutes.

In Los Angeles, 50 percent of the passengers exited the inspection facility in 43 minutes under ASIST, compared to 40 minutes pre-ASIST, for a 6 percent longer processing time. Ninety percent of the passengers cleared in 75 minutes, compared to 66 minutes before ASIST, or 15 percent longer. The average time for a passenger on a domestic flight to exit the terminal from the block time of the aircraft was 26.7 minutes at Los Angeles.

In Miami, all enforcement indicators were down under ASIST for both Customs and INS. Interceptions of agricultural products increased, due mainly to assignment of additional APHIS staff for the test. The drop in Customs enforcement included 32 percent fewer arrests, 40 percent fewer drug seizures, 18 percent fewer merchandise seizures, and 10 percent fewer currency seizures. For INS enforcement, one alien out of every 2,000 applicants was denied admission under ASIST, compared to 1 out of 1,700 for the same period the year before. This represents a 15 percent drop in INS enforcement.

In Los Angeles, Customs enforcement measures were mixed, with some rising and others falling. INS enforcement was down sharply. As at Miami, APHIS enforcement rose significantly as additional staff were assigned to the test. Customs enforcement showed a 45 percent increase in arrests, 44 percent increase in merchandise seizures, and 85 percent increase in currency seizures. However, cocaine seizures were down 17 percent, marijuana seizures dropped 14 percent, and overall drug seizures fell 6.5 percent. For INS, one alien out of 3,695 was denied entry under ASIST compared to one out of 2,396 a year earlier. This represents a 35 percent drop in INS enforcement.

In Miami, the number of passengers referred for secondary inspection was 22.1 percent under ASIST compared to 16.4 percent pre-ASIST.

Both Customs and INS conducted the test with no increase in staff, though their resources were merged in accordance with the test concept. While Customs concludes that ASIST has the potential for staff savings, this finding is wholly unsubstantiated by the report. In fact, what little data appears in the report, such as a significant increase in Inspector overtime, and an increase in the number of supervisors required, tends to support the opposite conclusion.

The report also shows that, based on staffing requirements, ASIST requires 7.7 percent more personnel than one-stop (Chart D.28, p. 78 of the Report). Finally, GAO's evaluation of the test found that the staff in Miami was inadequate for the inspection system being implemented, particularly due to a shortage of Inspectors at exit control points.

There is, therefore, no reason whatsoever for placing any confidence in the conclusion that implementation of ASIST will lead to staff savings. The most that can be said is that ASIST can be implemented with existing staff at some airports.

In its summary evaluation of the test, Customs compares the results of ASIST with specific criteria of success, such as passenger processing time, drug and merchandise seizures, revenue collection, staffing and overtime costs -- 14 criteria in all. It then renders this judgment: "Had the results of the key indicators been accepted at face value ASIST would be marginal at best."

However, its final conclusion is that ASIST can provide meaningful facilitative gains provided a string of conditions are met with regard to staffing, baggage delivery, and airport facilities and support services. INS gives unqualified support to ASIST, and recommends its adoption at other airports. In its report, INS dwells on the impact of recent staff reductions and finds merit in cross-training Customs personnel to perform INS functions. APHIS also supports ASIST provided additional staff are assigned to permit a separate Agriculture secondary, as was done in the test.

We believe that the wisest statement in the report is that ASIST is no panacea. Customs should resist pressure for its adoption at airports to which it is unsuited, and where its implementation would aim at the single goal of passenger facilitation to the detriment of enforcement.

Moreover, ASIST was implemented in such a short time frame that it is safe to say that it has not yet been adequately evaluated. Since it has continued in effect at Miami and Los Angeles, this Subcommittee should request a further evaluation covering a longer period than the initial test. In light of the adverse impact on enforcement demonstrated in both Miami and Los Angeles, ASIST should not be further expanded until evaluation indicates that Customs compliance levels can be maintained.

Let us turn now to the subject of cargo processing, which is an area where Customs is moving headlong toward adoption of a new inspection system without a proper evaluation of costs and benefits, including the impact on enforcement. The idea behind the new system, known as ACCEPT, or Automated Cargo Clearance and Enforcement Processing Test, is simple. Since Customs can make only a limited number of inspections, these should be concentrated on "high risk" shipments where the payoff is potentially greater for the inspectional resources expended. The problem is how to determine which are the "high risk" shipments. It is not possible to set up a computerized system for fingering the shipments to be checked, as ACCEPT attempts to do, without a great deal of data collection and construction of profiles of the characteristics of "high risk" shipments and "high risk" importers. There is no evidence that Customs has collected this data and constructed the profiles, let alone tested them. What we can expect from this system, until Customs demonstrates otherwise, is "garbage in, garbage out". The system will do a less than adequate job in guiding Inspectors to the shipments that need checking.

Enforcement is bound to suffer while a system that has been inadequately prepared and tested is implemented. Enforcement under ACCEPT depends on the formula, "fewer inspections, but higher quality inspections". What we believe we will see is the former, but not the latter.

Moreover, Customs has not come up with an answer to the question of how to deal with the infinite ingenuity of the smuggler determined to beat the system. Once it becomes known that certain importers and shipments are receiving minimal inspection, how can smugglers be deterred from taking advantage of this situation?

How can potentially harmful shipments, such as adulterated foodstuffs and improperly labeled medicines, be prevented from entering the stream of commerce? With Inspectors taking samples, such shipments can be stopped at the port. Under ACCEPT, the burden will increasingly fall on the Import Specialist to make a determination, based on review of entry documents, that a shipment is potentially hazardous. But Customs has been reducing the number of Import Specialists, and those remaining are severely overworked. Besides, once the Import Specialist gets the entry documents, the shipment may already be in the stream of commerce. So how will ACCEPT protect the public health and safety?

Section 499 of the Tariff Act of 1930 requires the inspection of not less than one package of every invoice and not less than one of every ten packages of imported merchandise. The law authorizes the Secretary of the Treasury to provide, by regulation, that a lesser number of packages may be examined when, in his opinion, the examination of a lesser proportion will amply protect the revenue. We believe this provision allows the Treasury Secretary to reduce the number of inspections required, but not to totally abrogate the requirement for inspection contained in the law. However, on September 10, 1981 Customs issued a regulation which allows the release of merchandise with no inspection at all.

Last year, we called for public hearings on ACCEPT and the related Customs regulation of September 10, 1981. We also urged this Subcommittee to bar any funds for implementation of ACCEPT until this panel is satisfied that the public interest is protected. We simply do not believe that the Subcommittee should accept unsubstantiated assertions that, because this system is "automated" or "computerized," it is a truly effective enforcement tool, and not a scheme for minimal enforcement or non-enforcement through exclusion from inspection of many goods imported into this country. We again strongly urge the Subcommittee to act on this important matter. We will be pleased to assist in any way possible with your review of the ACCEPT program.

Another area fraught with danger to the public is the Customs program to remove its employees from bonded warehouses and turn the accounting and release of merchandise over to the warehouse management. In its report on the Customs authorization for FY 1981, the Trade Subcommittee of the House Committee on Ways and Means called upon Customs to conduct an in-depth national audit of bonded warehouses. The Subcommittee report noted "incredible" abuses in the program. The results of several audits that came to the Subcommittee's attention amply supported this assertion. Now Customs is trying to wash its hands of the bonded warehouses. Its new report will enable Customs to audit the future condition of the warehouses, but what about the present condition? Without the national audit called for by this Subcommittee, the potential for fraud, abuse, and scandal is huge. We urge the Subcommittee to call an immediate halt to further execution of this program until you have had an opportunity to thoroughly review Customs' plans and actions to date.

Overtime

Last year, the Ways and Means Committee voted to remove the $20,000 cap on inspectional overtime earnings and the House of Representatives adopted this committee amendment by a vote of 220 to 178. Similarly, the Senate deleted the overtime limitation from its version of the FY 1983 Customs authorization bill and, as a result, the statutory overtime cap was eliminated in the final version of H.R. 6094, which was signed by the President on January 12, 1983.

In a letter to Representative Edward R. Roybal, Chairman of the House Subcommittee on Treasury, Postal Service and General Government of the Committee on Appropriations, Chairman Gibbons of the Trade Subcommittee and 15 Members of the Ways and Means Committee urged the Treasury Subcommittee to remove the overtime cap in the FY 1983 Customs appropriations bill. Despite the Trade Subcommittee's argument that the cap had become unduly restrictive and expensive to enforce, the House and Senate Committees on Appropriations included an overtime cap of $25,000 in the FY 1983 Continuing Appropriations Resolution and granted the Commissioner of Customs, or his delegate, authority to waive the cap in individual cases. Because the overtime cap continues to be a burden to both the taxpayer and the individual Customs Inspector, we call upon this Subcommittee to take whatever steps are necessary to ensure that Customs' activities during FY 1984 are not hampered by the existence of a statutory limitation on overtime earnings.

Though only two Customs Inspectors had exceeded $20,000 in overtime earnings during FY 1979, the year before Congress first imposed the $20,000 cap, almost one-third of all Customs Inspectors neared the statutory limit by the end of FY 1982.

This confirmed for us the fact that overtime had become a critical resource for meeting the growing demand for clearance of passengers and cargo. For nearly a decade, a virtually static number of Inspectors has been available at our nation's ports of entry to meet a steadily growing number of air travelers and formal entries of goods. On balance, overtime has become a necessary and cost-effective tool in Customs' strategy for meeting its enforcement and revenue collection responsibilities with a work force limited by Office of Management and Budget (OMB) personnel ceilings.

An Inspector with overtime earnings of $15,000 to $20,000 a year works an average of 62 hours a week, 52 weeks a year. In fact, a 1981 Customs' study of overtime showed that, in addition to a normal 40-hour week, the average Inspector is required to work three of every four Sundays, one Saturday per month, and seven weekday overtime assignments per month. Clearly, the cap has not reduced the overall amount of overtime necessary to meet the demand for service. It has merely spread overtime out among the staff to such an extent that employees who do not want to work overtime are forced to, while those Inspectors who are willing to work longer hours are prohibited from doing so.

Forcing Inspectors to work long hours on overtime has driven many dedicated employees out of the Service. In some cases this has led to even more tragic consequences. An Inspector in Detroit died of a heart attack last year after working an overtime shift from which she had asked to be excused. The Inspector had been assigned to work 4-12 p.m. on Sunday and then required to return to work at 7:00 a.m. Monday. She asked to be excused from overtime Monday night but was ordered to work. There were other Inspectors who were present and willing to work but were not allowed to because they had reached the overtime cap. She died of a heart attack later that evening.

In Houston, where the seaport stretches for 60 miles, Customs has seen several women Inspectors resign over the past year after being forced to work late at night on overtime. Incidents in which female Inspectors were accosted while working late in unsafe areas were also reported.

While proponents of the overtime cap claim to be acting in the employee's interest by limiting the amount of overtime Inspectors can be compelled to work, the overtime cap has had the exact opposite effect by completely eliminating the voluntary aspect of overtime. Prior to the imposition of the cap, Inspectors were able to work out an allocation of overtime duty which took into account their personal needs. Inspectors who wanted to earn more money and were willing to sacrifice their free time or work late at night volunteered for overtime, while Inspectors who had family obligations or other non-work commitments did not. And although this system led to an imbalance in earnings, because the Inspectors were able to choose which assignments they wanted, efficiency and productivity were greatly enhanced.

We strongly believe that employees willing and able to work overtime without foregoing family obligations should be permitted to do so, and that the burden of forced overtime should be minimized. Morale at the workplace is fostered by allowing individual preferences to play a greater role in the assignment of overtime, not by a rigid policy of equalization of earnings.

For the past two years, Customs itself has urged Congress to remove the overtime cap. Treasury Department officials have testified that, in addition to costing over $1 million a year to administer, the cap is preventing Customs from properly allocating its limited resources among ports experiencing different rates of growth. Instead of using local Inspectors to clear carriers on overtime, Inspectors have been transferred from other ports at government expense to do the job.

Moreover, the overtime cap is interfering with the accomplishment of Customs' mission. Inspectors who exceed the cap are not available for overtime assignments, and some services are either being withheld, or they are being provided by less experienced part-time employees. In some cases, Customs has been forced to use non-inspectional personnel to clear incoming flights. In other cases it has had to replace Inspectors who have reached the cap with higher-salaried supervisory personnel, at a greater cost to both the carriers and the government. In light of this cost, we urge the Subcommittee to keep in mind the fact that over 70 percent of all overtime earnings are reimbursed to the government by the carrier which requests clearance after normal port hours.

The $25,000 cap imposed during FY 1983 was intended to avoid allowing a sizeable number of Inspectors to reach the cap. But we would like to remind the Subcommittee that, as Customs testified last year, it would need to raise the cap to between $26,000 and $30,000 to assure that its workload requirement was met by available personnel during FY 1983. Moreover, with a 4% pay raise, the $25,000 cap is now effectively $24,000.

The authorizing committees wisely chose to eliminate the cap altogether and urged Customs to maintain internal controls on the use of overtime. Customs asked for that kind of administrative flexibility last year and stated that it would actually save the government money. We hope the Subcommittee will therefore delete the overtime cap from its appropriations legislation.

Before we leave the subject of overtime, we would like to briefly address the rate of overtime pay provided under the Act of 1911. The most recent data collected by Customs shows that Inspectors are earning, on the average, 2.1 times the regular rate of pay on Sundays, and 2.4 times the regular rate on the other days of the week. The Customs study attributes the 2.4 rate of pay to the call-back of Inspectors who have left the work site. Such call-backs frequently occur at night and at irregular hours, taking a physical toll on the Inspector. In addition, there is often a good deal of uncompensated travel time to and from the port, and waiting time when aircraft or ships are delayed in arriving. The study also confirms that the average Inspector works 7 hours on each Sunday assignment, and an average of 8 hours if holidays are included in this figure.

We remain convinced that the frequent call-backs, the late-night hours spent away from home, and the physically demanding nature of inspectional duties justify the present rate of overtime pay. Moreover, these rates of pay conform with the prevailing overtime rates in the private sector, which normally establishes double-time premiums for call-back and night work, and where the typical practice is triple-time for Sunday overtime and double-time-and-one-half for holiday work.

We urge the Subcommittee to reject any Administration attempts to change the basic overtime rate of pay for Customs Inspectors. It would not only be grossly unfair to the Inspectors, who have a unique role in Federal law enforcement, but it would seriously reduce the incentive to continue to work long hours at a time when the service is stretched thin and already lacks adequate staff.

Tariff and Trade

The Tariff and Trade activities of Customs are responsible for the collection of over $11 billion a year in revenue to the U.S. government and for the smooth operation of our nation's trade programs. Import Specialists are now located in approximately 65 Customs offices across the country, where they are in daily contact with representatives of the importing community, sharing with them their intimate knowledge of product lines, Customs court rulings, and the technical aspects of their own commodity specialties. When one considers that there are over 10,000 categories in the Tariff Schedules, that products frequently fit more than one classification, and that proper classifications can make the difference between a duty-free entry or a 70-percent tariff, the value of this service to both the import community and the American taxpayer can be understood.

This is confirmed in a Customs survey of rejected entries conducted in May 1980. The survey found that 16 percent of all entries reviewed by Import Specialists were rejected due to errors. Classification errors were the most numerous, amounting to 32 percent, while valuation errors made up another 15 percent. In addition, 549 entries covering quota merchandise were erroneously presented as not subject to quota. In commenting on this finding, the Director of Customs' Office of Trade Operations stated:

> "While this number does not appear to be statistically significant, the unlawful entry of 549 shipments of quota merchandise would have had catastrophic repercussions."

It also noted that the correction of these errors by the Import Specialists resulted in the collection of an additional $53 million in import duties. The significance of this figure is apparent when one considers that the annual salary cost for the entire Import Specialist work force at that time was $34 million.

The Administration has proposed reducing the number of entry processing locations by half and, in addition, cutting the total number of Trade and Tariff personnel by 698 employees as part of its FY 1984 budget. These cuts will save Customs $26 million in personnel costs, and if we once again compare this to the $53 million in entry errors found during Customs' 1980 study, the reasoning behind the proposed budget cuts appears even more shortsighted.

Even before this year's cuts were proposed, Customs Tariff and Trade activities were suffering from a growing imbalance between workload and personnel resources. As shown in Table 2 , the 1,150 Import Specialists on board today are fewer than the number available during 1974. Yet in 1984, the Administration projects that the number of entries will continue to climb and will represent more than a 60% increase over the volume of imports in 1974. Even allowing for a significant improvement in productivity, which has increased historically at a 4.3 percent annual rate, it is evident that Customs has been, and will continue to be, unable to keep pace with the growth in workload.

A 1981 GAO report entitled, "Assurance Needed That Import Classifications are Accurate," belies Customs' claim that increased computerization and greater reliance on brokers will make up for this shortfall in personnel. In fact, the GAO study indicates that it is the very absence of an Import Specialist's personal involvement in the classification and valuation process that is resulting in very costly errors to both taxpayers and the U.S. government.

The report states that:

> "Customs Service import specialists have insufficient time and means to adequately verify Tariff Schedule classifications assigned by importers or their brokers to billions of dollars worth of foreign products entering the United States annually. Proper classification is essential for determining the appropriate import duty, treating importers consistently, and compiling import data for formulating trade policies.
>
> "Verification is hindered, in part, by a cursory entry-by-entry review of entries, a relatively large number of incorrect entry documents which are rejected and must be resubmitted, and the lack of a quality assurance program.
>
> "The Service's problems are intensified by a relatively unchanging work force and a sharply increased workload."

The report also notes that steps essential to confirming import classifications -- physical examination of the articles and, where appropriate, laboratory analysis coupled with application of legal principles and prior rulings -- are often not performed. GAO found that, in a random sample of entries in three Customs field offices, up to 74 percent of product classifications were accepted solely on the basis of reviews of entry documents. Of products susceptible to laboratory analysis, only 13 of 242, or 5 percent, were analyzed. From 75 to 85 percent of the products were probably never physically examined, according to the report.

As the report points out, a few hours on the importer's premises, viewing samples and establishing classifications, can save untold staff hours by permitting Customs to liquidate most entries upon receipt. In fact, during FY 1981, Import Specialists made over 8,000 visits to importers' premises. While importers consider this to be a very valuable service to their business, it also allows Customs to save the government money by eliminating the potential for rejected entries, time-consuming post-entry work, and entry backlogs resulting from errors.

The value of the service provided by Import Specialists to the trading community is best illustrated by the overwhelmingly negative response of importing agents and brokers to Customs' plan to centralize the appraisement function in 35 locations, down from the present 65. A letter from one North Carolina agent written in response to Customs' proposal to transfer the Import Specialists stationed in Wilmington, North Carolina to Norfolk, Virginia, best sums up the problem:

> "U.S. Customs personnel in North Carolina have played a major role in our opinion, in the growth of the North Carolina ports. U.S. Customs personnel have played a very major role in the expeditious clearance of imported cargo through the ports of North Carolina...
>
> "By placing our port under the district in Norfolk, we, of course, feel left out in the cold. The closest Import Specialist which we would have contact with would be Norfolk, Virginia. Therefore, each time we had a question it would be necessary to place a long-distance call to Norfolk and discuss the problem, whereas now, within five minutes we can be in the Customs office discussing our problem face-to-face with an Import Specialist or with other Customs officials as necessary...
>
> "A few years back, Customs experimented with what was called centralized appraisement within each region of the Customs Service. Import Specialists at different ports were assigned different commodities for which they would have responsibility for final appraisement and classifications. Therefore, an importer could have his merchandise imported at the port in Wilmington but have his entry appraised in Miami. Not only did it take longer to have merchandise appraised, but it became virtually impossible to have contact with the Import Specialist who was actually appraising a particular type of merchandise. We think that this method proved to be very costly and cumbersome to the U.S. Customs Service; therefore, this plan or program was discontinued. Almost immediately, there was a remarkable improvement in the appraisement of

> merchandise. We think that we are headed for another disastrous experience if the Customs districts are reorganized as we have heard they would be."

During consideration of the FY 1983 Continuing Appropriations Resolution, both the House of Representatives and the U.S. Senate expressed reservations about the Administration's plan to centralize Customs' appraisement function and, in a piecemeal fashion, responded to the objections of importers and their congressional delegations by prohibiting Customs from eliminating twelve entry processing locations, including Customs offices in Duluth, Minnesota/Superior, Wisconsin; Milwaukee, Wisconsin; Bridgeport, Connecticut; Portland, Oregon; Miami, Florida; Saint Albans, Vermont; Anchorage, Alaska; and Blaine, Washington.

Since that time, importers and members of Congress from other ports affected by the centralization program have voiced strong objections to shutting down appraisement offices and transferring Import Specialists to distant locations. The most recent list of ports which will lose their appraisement capability by April 1 of this year includes the ports of Pittsburgh, Pennsylvania; Charlotte, South Carolina; Greenville-Spartanburg, North Carolina; Jacksonville, Florida; Port Everglades, Florida; Eagle Pass, Texas; San Diego, California; Phoenix, Arizona; Sweetgrass, Montana; Great Falls, Montana; Portal, North Dakota; Toledo, Ohio; and Witchita, Kansas.

Though we have requested detailed information regarding the centralization plan, Customs has still provided no rationale for the proposal and no cost-benefit analysis of its supposed advantages. In addition, Customs has not provided the impact statements on the affected communities required by executive order.

Our objection to the plan is based on our belief that it would break down the Inspector/Import Specialist team that is vital to the smooth operation of our ports of entry. Ultimately, the centralization plan will cost the government billions in lost revenue resulting from entry errors. The range of commodities that an Inspector must examine is too great to permit him the expertise needed for a determination of admissibility. Consequently, the Inspector calls upon the Import Specialist, who frequently joins him in the inspection. Such teamwork is the bedrock of the entire system. It has, for example, prevented botulism-contaminated foodstuffs from entering the stream of commerce. By removing the Import Specialist from close contact with Inspectors, there is a greater likelihood of a shipment being released before its inadmissability is discovered.

In addition, as we have shown, the loss of face-to-face contact with Import Specialists would deprive the business community of an extremely valuable service, and cost many firms thousands of dollars. At the same time, it would hinder the development of foreign trade in many municipalities and result in lost revenue to areas already hard-hit by the recession. We therefore call upon this Subcommittee to make a clear statement of policy concerning the desirability of Customs' maintaining Import Specialists in their present locations by barring the use of appropriated funds for the implementation of this plan.

At the same time, the nation needs a firm commitment to increase the number of Customs Trade and Tariff personnel to the level required to meet the growing demands of trade and a rapidly expanding importing community. Based on the sheer volume of entries, a minimum of 1,400 Import Specialists is required. Customs estimates that, in FY 1984, it will collect over $12 billion in import duties, or over $18 for every dollar appropriated to the Customs Service. Hiring additional Import Specialists would not only help correct present deficiencies in the valuations and classifications program, but it would bring in additional revenue to the U.S. government.

Tactical Interdiction

For several years, this Subcommittee has expressed alarm over the epidemic level of narcotics smuggling. In particular, it has placed a high priority on stemming the flow of drugs into the U.S. across our Southern border. Given this, we find it incredible that the Administration has once again submitted a budget that reduces the number of Customs Patrol Officers, the dedicated group of men and women who are primarly responsible for the enforcement efforts of the Customs Tactical Interdiction function.

Last year, the Administration's proposal for a cut of 70 Patrol Officers was rejected by Congress' and this year OMB has requested that this corps be reduced by over 100. These cuts in personnel are even harder to justify in light of the Administration's request for a second Air Module, a resource package of aircraft, radar and other electronic gear. Clearly, if Customs is going to provide the Patrol function with added equipment, technology which we believe is badly needed in our war against smuggling, the Administration should be no less committed to providing the personnel needed to exploit this new equipment to its fullest capacity.

Along with the Customs Air Patrol, the Customs Land Patrol is enlisted in the fight against illegal immigration and narcotics smuggling. In addition, the Customs Marine Patrol cooperates with the Coast Guard and Navy and other Federal agencies in blocking the use of "mother ships" and other vessels used to bring drugs into the country. An example of the problems facing Customs Tactical Interdiction personnel is graphically illustrated by the Director of the Customs Air Support Program, who last year told the Miami News:

> "What we've got is about 150 targets every day coming in, in the radar environment, and they're not talking on the radio, they're not displaying a transponder code and they're not on a flight plan. And they're not being challenged by anybody...The only people around to challenge them are us and we can only pick six to eight a day to chase."

The fact is that, of 7,000 aerial sorties made by drug traffickers into this country each year, only 1 percent are being successfully interdicted.

As you are aware, the Administration has launched an effort in South Florida to attack the drug problem, and the FY 1984 budget proposes that twelve additional regional task forces work around the country to combine the efforts of Federal law enforcement agencies to fight drug trafficking by organized crime. What the Administration seems to be adding on the one hand, it is reducing on the other. For the reduction in Customs Patrol function is a net reduction from last year's budget.

We ask that the Subcommittee give very serious consideration to the priority that should be accorded Customs Tactical Interdiction, in light of the enormous drug and immigration problems facing this country.

NTEU'S RECOMMENDATIONS FOR AN ALTERNATIVE BUDGET FOR THE CUSTOMS SERVICE

Table 3 appended to our testimony contains our recommendations for an alternative budget that will enable the Customs Service to meet minimum essential requirements for Fiscal Year 1984. High among these requirements are the need for additional Inspectors at our ports of entry, the need for an adequate number of Import Specialists to process a growing volume of imports, and the need for additional Customs Patrol Officers to guard our frontiers.

We would like to summarize these recommendations.

First, we recommend an additional 200 Inspectors and $7.5 million above the level of the FY 1983 Continuing Resolution. This necessarily entails restoration of the Administration's proposed cut of 1,195 Inspection and Control positions and $45.7 million. Also, the 170 positions being lost through decreased reimbursement would be restored, at a cost of $7.8 million.

The total additional requirement for Inspection and Control would be $61 million in FY 1984.

Second, we recommend an additional 150 Import Specialists and $5.6 million above the level of the FY 1983 Continuing Resolution. This entails the restoration of the Administration's proposed cut of 698 Tariff and Trade positions, and $26.9 million. The total additional requirement for the Tariff and Trade function would be $32.5 million in FY 1984 under the NTEU recommendation.

Third, we recommend an additional 50 Customs Patrol Officers and $1.9 million above the level of the FY 1983 Continuing Resolution. This entails restoration of the Administration's proposed cut of 102 positions and $1.2 million for Tactical Interdiction. The total additional requirement for Tactical Interdiction would be $3.1 million for FY 1984.

Fourth, we recommend that the Subcommittee allow 256 positions and $50.7 million above the level of the FY 1983 Continuing Resolution for program additions proposed by the Administration, namely, $10 million for Operation Exodus, $3.7 million and 31 positions for support of the Summer Olympics, $18.3 million for a second air module for drug interdiction, $15.9 million and 225 positions for the Customs contribution to the President's new organized crime and drug enforcement task forces, $2.3 million for new ADP equipment, and $.5 million for toxic substance control. These amounts are already included in the Administration's budget request.

In sum, we urge a restoration of Administration cuts in Customs functions totalling 2,000 average positions and $72.6 million. This restoration would save RIF costs of $20 million, or a net increase of $52.6 million. We also support the program improvements and $15.3 million allowance to maintain programs at current levels, as proposed by the Administration, totaling $66 million and 256 average positions. Going further, we would add

400 positions and $15 million for essential personnel and 170 positions formerly reimbursed to Customs by the Department of Agriculture and warehouse proprietors at a cost of $7.8 million. Thus, our total recommended addition to the Administration's budget request for FY 1984 is 2,570 positions and $75.4 million.

We appreciate the opportunity to present our views on the FY 1984 Customs appropriation and look forward to working with the Subcommittee to develop the FY 1984 budget for the Customs Service.

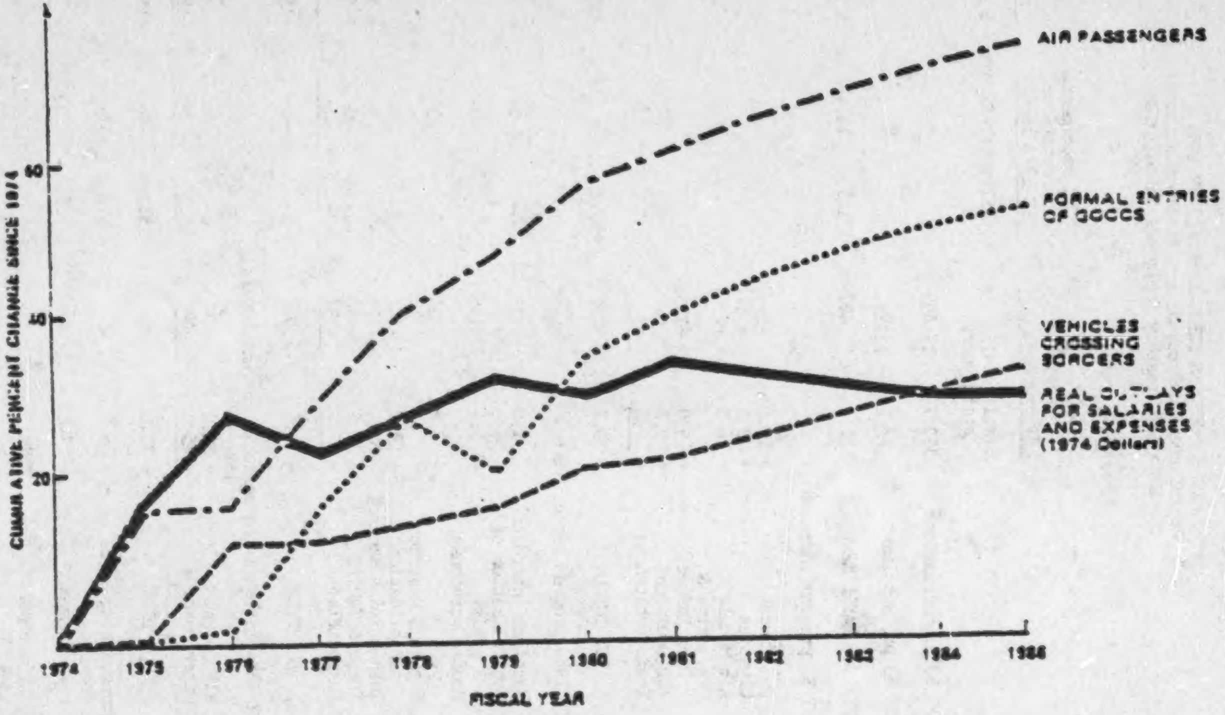
Table 1. Number of Customs Inspectors and Total Employment

FY 1972 - 1984

			Indexes: 1972=100	
	Total Employment (Average Positions)	Number of Customs Inspectors	Total Employment	Customs Inspectors
1972	11,116	3,754	100	100
1973	11,772	3,700	106	99
1974	11,878	4,000	107	106
1975	13,076	4,400	118	117
1976	13,380	4,300	120	114
1977	13,228	4,300	119	114
1978	13,854	4,399	125	117
1979	14,061	4,174	126	111
1980	13,820	4,165	124	111
1981	13,316	4,379	120	116
1982	12,924	3,987	116	106
1983 (EST)	13,492	4,125	121	110
1984 (EST)	11,748	3,305	106	88

EXHIBIT I

CUSTOMS WORKLOAD COMPARED TO REAL SALARY AND EXPENSE OUTLAYS (1974-1985)



* Trend projection

U.S. CUSTOMS SERVICE BUDGET FY 1984
Administration Proposal and Recommendation of the National Treasury Employees Union (NTEU)

Table 3.

	Admin. proposal		NTEU recommend. to restore to FY 1983 level		NTEU add-on for minimum enforcement staffing	
	$(millions)/ staff years		$(millions)/SY		$(millions)/SY	
FY 83 appropriations	553.7	13,492				
FY 83 pay supplement.	+ 17.6	-0-				
FY 1983 BASELINE	571.3	13,492	571.3	13,492	571.3	13,492
FY 83 program increases:						
Op. Exodus	+ 10.0	-0-				
Olympics	+ 3.7	+ 31				
Air Module	+ 18.3	-0-				
Org. crime & Drug Enforc.	+ 15.9	+225				
ADP Equipment	+ 2.3	-0-				
Toxic substances	+ .5	-0-				
SUB TOTAL	+ 50.7	+256	+50.7	+ 256	+50.7	+ 256
FY 1984 program reductions:						
Tactical interdict.	- 1.0	- 28	-0-	-0-	+ 1.9	+ 50
Centralization of Apprais.	- 5.7	-156	-0-	-0-		
Bonded warehouse prog.	- 2.0	-114	-0-	-0-		
Region & District consolidation	- 5.7	-142	-0-	-0-		
Inspection & control	- 34.4	-198	-0-	-0-	+ 7.5	+ 200
Trade & Tariff	- 16.8	-450	-0-	-0-	+ 5.6	+ 150
Unspecified	- 7.0	-192	-0-	-0-		
SUB TOTAL	- 72.6	-2,000	-0-	-0-	+15.0	+ 400
FY 1984 increases to maintain current levels:						
RIF costs	+ 20.0	-0-	-0-	-0-	-0-	-0-
Other costs	+ 15.3	-0-	+15.3	-0-	+15.3	-0-
SUB TOTAL	+ 35.3	-0-	+15.3	-0-	+15.3	-0-
Nonrecurring costs	- 6.0	-0-	- 6.0	-0-	- 6.0	-0-
Decreased reimbursement*	(- 7.8)	(- 170)	+ 7.8	+ 170	+ 7.8	+ 170
FY 1984 BUDGET	578.7	11,748	639.0	13,918	654.0	14,318

*reduction in reimbursement from Department of Agriculture and other programs

Senator ABDNOR. Thank you, gentlemen.

On the Customs subject, I don't think I have that many questions. As you know, we're concerned, too, and we're holding a very detailed hearing on this subject on Monday.

Mr. SAMUEL. We'll be testifying on Monday.

Senator ABDNOR. Fine. But I don't think I'll have too many questions. I can't quarrel with the theory we've heard a minute ago, the more service and people we have working, the more dollars you collect. But I think there is a point at to what the American people accept and maybe they'll have the last word. What are you suggesting, Mr. Smith, we hire how many extra? Wasn't there a figure in there? 10,000 or 12,000 people?

Mr. SUPLIZIO. Sir, we have provided an alternative budget recommendation to the subcommittee, which we believe responds to an injunction, Mr. Chairman, that was contained in the Tax Equity and Fiscal Responsibility Act.

I would like to call your attention or remind you of a provision of that act which contained a sense of the Congress resolution that called for the committees of the Congress and for the Congress to appropriate such additional funds for improved tax enforcement as to bring in an additional billion dollars in revenue in fiscal year 1984, and $2 billion in fiscal year 1985.

We believe our alternative budget recommendation responds to that. Now, we have recommended 9,600 staff years, or about a 10-percent increase in IRS staffing, which would bring in additional revenues of $2.6 billion through securing returns of nonfilers, through correcting the tax returns of people who are under-reporting income, through additional audits to bring the audit coverage up to 1.75 percent rather than 1.5 percent. And we believe that response to the sense of the Congress resolution passed in TEFRA.

Now, if the subcommittee saw fit, we also would point out that half that amount, 4,800 staff years, or about a 5-percent increase in Customs staffing, would bring in about $1.3 billion in fiscal year 1984, and that is the minimum amount, as you know, contained in the sense of Congress resolution.

Senator ABDNOR. You have the computations that arrived at that? I mean, where it comes from? The $1.3 billion?

Mr. SUPLIZIO. Yes, we do have that in our detailed statement. We have a table that shows, sir, that if our, that from the additional staffing recommended for the returns correction program, we would secure $38 million. The additional staffing for the examinations and appeals program would produce $1.8 billion. The additional staffing in the collection program would product $646 million. And the additional staffing in the information return program would produce $188 million.

Now, I might point out that with respect to the last item, Mr. Chairman——

Senator ABDNOR. That means we've got an awful lot of crooked people in this country who are not filing. Is that what you mean when you say you can solve it all by putting all these people on to catch all these guys?

You know, I just went up stairs and saw an overwhelming vote on something we tried to do in Congress last year. If you think people aren't going to speak out, I'll tell you. I've never had so many letters praising me—I hate to tell you this, to show you the reaction, of the American people, when I was a little bit stubborn, not at the employees of the IRS but when I refused to sign that resolution, and I didn't care for that statement in that paper. I thought maybe the administration needed a lesson when they vetoed that bill. I didn't think it had any business being vetoed, but if you think I lost any votes with the people, who spoke on this you are wrong. I'm just saying it's a selling job, too. Because in this country, the people rule, and when they speak out, they speak out.

And if you don't think so, go up and see the support Mr. Kasten has because some of us dared think we ought to tax dividends and interest, which I think is a perfectly legitimate thing. But I'm not going home and battle the people there. I got beat up so badly over that legislation when I went home I was holding three meetings a day out in my area. That's all people talked to me about.

The IRS people aren't the most popular, unfortunately. I have great respect for them, and any guy that wants to put his life into that deserves a medal, because I know what they have to go through.

But the point I make, it's great to come down here, but we've also got to sell the American people into being willing to accept the whole thing.

I would just make that point. I guess I've got a lot of faith in people. I think more people ought to help people do returns and do it right. There's always somebody who will try to take advantage, maybe stretch the law, but I think most people, out my way, at least who are proud to pay a tax. Just make some money in agriculture here so when IRS funds are due, they can just find some reason to have to pay it.

But I'm saying that I wouldn't quarrel with the fact that more people means more dollars. I don't know if there is a saturation point where—well, this 9,600 people. That would be a lot of people to absorb at one time. How many bucks would that be?

Mr. SUPLIZIO. It's not for a large agency, sir. There are 90,000 already in IRS and the cost would be $300,000,000.

Senator ABDNOR. We put 5,000 on last year, remember?

Mr. SUPLIZIO. Yes, and I might point out in that regard that the number of delinquent accounts, that was to collect delinquent accounts, the number of delinquent accounts has remained the same despite the fact that you put on those 3,000 to 5,000 last year.

Because we're just able to take care of the growth in the number of people who are not paying their taxes, legally owed taxes on delinquent accounts.

In fact, we are writing off a large amount of tax revenue, sir, on accounts that are aging, because we lack the people to go out and collect them.

So, in response to your point, we certainly understand your view, and——

Senator ABDNOR. Well, it's not my view. It's a fact.

Mr. SUPLIZIO. There are $87 billion that could go to the national deficit that is not being collected and we're afraid, sir, that once a European attitude toward taxes should take hold within the American public, once they begin to believe that they can shave their tax returns, and take their chances on an IRS audit, then tax compliance, of course, will fall, and we may very well see the end of a very fine system of tax administration that we've all been proud of over the years.

Senator ABDNOR. It would be interesting to try it on a pilot program in an area and see if that's what it does and how much it brings in. Maybe that's the best way to do it. Maybe if the American people, those who do pay taxes find out that a lot of other people aren't paying theirs, why, maybe the people would have a better attitude on it, too.

Mr. SUPLIZIO. We would welcome that, Mr. Chairman.

Senator ABDNOR. There's one more point here, where you say, and this is in your written statement, on page 20 that there is a problem when IRS prepares a national audit plan, it does not have the foggiest notion of the time required to perform a quality audit. Don't these people work together a little bit?

Mr. SUPLIZIO. Yes, we do, sir, and they can, of course, provide. IRS can tell you that it takes about 3½ hours to do an office audit; 15 hours to do a field audit; about 60 hours to do a corporate audit.

But, sir, our tax returns are becoming more complex, and the statement we made is based upon a General Accounting Office study. The GAO did a study about 1978, 1979 vintage in which they documented that this is the case, that IRS does not have an indication, when it makes, as the basis for its audit plan, a good, solid figure as to the amount of time it takes to do a quality audit.

We do have our agents being pressured to close cases and close audits in as short a time as possible.

Senator ABDNOR. Let me ask you this, and this is the last question. We do have to move on.

Do you think we could do a better job with simpler and easier tax laws? Do you think we've got a pretty cumbersome and complicated system?

Mr. SUPLIZIO. As of the moment, we certainly do, and that would require legislation, however, by the Congress.

Senator ABDNOR. I'm well aware that changes would be needed. But I just wondered if you really felt down deep that this could be done.

Do you think this automatic equipment that we're talking about would be of any assistance?

Mr. SUPLIZIO. Definitely, and we certainly are working with the Service in phasing in its introduction, and insuring that it is introduced in a way that will maximize productivity, and gain employee acceptance, and we certainly have been cooperating in that program.

Senator ABDNOR. Well, gentlemen, we could go on a long time, but I do have to move on, and we thank you very, very much.

Our next witness is the Air Transport Association of America, James Landry and Linda Pinegar.

STATEMENT OF JAMES LANDRY, SENIOR VICE PRESIDENT, AIR TRANSPORT ASSOCIATION OF AMERICA

ACCOMPANIED BY LINDA PINEGAR, AIR TRANSPORT ASSOCIATION OF AMERICA

Mr. LANDRY. Thank you, Mr. Chairman.

My name is James Landry, and I'm senior vice president and general counsel of the Air Transport Association of America, which represents the scheduled airlines of the United States.

Among our members, there are 17 U.S. flag airlines that provide regularly scheduled air service between the United States and over 70 foreign countries.

I'm accompanied by James R. Gorson, the Association's director of facilitation, who is responsible for coordinating the airline industry's program to encourage the development of governmental border crossing practices and procedures better adapted to and in closer harmony with the high technology air transport system, and the needs of millions of travelers and shippers. And as you have pointed out, I'm also accompanied by Ms. Linda Pinegar who is our director of Federal legislation.

We appreciate the opportunity to appear before the subcommittee to discuss the U.S. Customs Service inspection requirements as they affect international air commerce. Our primary interest is in seeking to assure that the responsibility of the Customs Service and the means by which they are carried out do not nullify or erode the benefits of air transportation, benefits which are wholly dependent on the speed efficiency and reliability of airline service.

Our concern is the current and future appropriations for Customs staffing at our international airports will continue to cause serious air service interruptions and extensive public criticism unless resource adjustments are made, and ways are found to reduce inspection workload through simplification and modernization of practices and procedures, and by other means.

This concern is intensified by the fact that current inspectors staffing is well below the level needed today, that extensive inspection delays and public inconvenience have occurred, that longstanding inspection practices have not been changed significantly, that current budget proposals ask for a substantial reduction in the number of customs inspectors, and that pending considerations hold little promise for the resource adjustments and procedural changes which are required.

I'd like to amplify my remarks a bit on the subject of Customs' inspector staffing. It has not kept pace with the growth of air commerce and continues to be seriously inadequate at airports where international air travelers and air freight enter the United States.

For example, as detailed in a letter of March 30, 1983 from the Flying Tigers Line, which was attached to my prepared statement, the Customs Service import specialist positions at Charlotte, N.C. will be transferred to other ports or eliminated.

The effect will be a reduction of Customs staff at Charlotte of 33 percent. There are also severe bottlenecks in processing international travelers through Customs formalities at many U.S. airports of entry, and at the preclearance airports in Canada, Bermuda, and the Bahamas.

Lengthy delays continue to be experienced at many airports, including, for example, Miami during the New Year's holiday rush, at Seattle, at New York's Kennedy Airport, and at Honolulu.

Despite increased international air travel, the already undermanned Customs inspector staff assigned to airports of entry is to be reduced in fiscal year 1984. The fiscal year 1984 Customs budget proposals include expenditure reductions which will lower inspector level by some 820 positions. And this in turn will reduce airport inspector levels by roughly 10 percent.

Added to the disruption in delay caused by the present shortage of airport inspectors, these reductions will result in additional airport inspection delays and may well force air service interruptions.

At a joint government-airline facilitation conference in San Juan, Puerto Rico, last November, ATA was requested to develop an analysis on how inspection agency efficiencies could be realized. The ATA analysis was completed the week before last, and we will be glad to supply a copy of that analysis for the record.

Senator Abdnor. Fine.

[The information follows:]

ANALYSIS OF FEDERAL INSPECTION AGENCY MANAGEMENT AND ORGANIZATION

I. INTRODUCTION

In order to strengthen air commerce and achieve greater government productivity, the United States must improve its ability to facilitate the movement of passengers and cargo through its international gateway airports, and must assure that federal inspection services are performed efficiently and economically. National policy calls for measures to encourage travel, tourism, and trade and, concurrently, to prevent the entry of unlawful narcotics, illegal aliens, contraband, and dangerous plant, animal, and human diseases.

The challenge of accomplishing these objectives is illustrated by an examination of the scale of activities involved. Twenty-six million air travelers entered the United States on more than 200,000 scheduled and charter aircraft in 1982.1/ In the same year, international cargo, with an estimated value of $31 billion, arrived by air at United States gateway airports.2/ Federal projections indicate that substantial increases in both passengers and cargo can be anticipated in the decade ahead.3/ An increasing proportion of international cargo shipments is comprised of time-sensitive small-package and document express shipments, for which efficient customs clearance procedures are particularly important.

The economic impact of this international commerce emphasizes the necessity for modernizing and streamlining the federal inspection services. In 1982, customs duties collected on air and surface imports exceeded $9 billion.4/ This figure compares with the collective budgets of $1.2 billion for the U.S. Customs Service, the Immigration and Naturalization Service, and the Animal and Plant Health Inspection Service.5/ According to the U.S. Travel Data Center, visitors from abroad contribute annually $12 billion to the United States economy, producing over $1 billion in federal, state, and local taxes, and supporting 320,000 jobs.6/ In recent years, the rate of growth of foreign visitor spending has far

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1/ See Appendix A.
2/ See Appendix B.
3/ Federal Aviation Administration, "FAA Aviation Forecasts - Fiscal Years 1982-1993" (February 1982).
4/ See Appendix C.
5/ See Appendix D.
6/ See Appendix E.

outpaced the rate of growth of U.S. personal consumption expenditures and the Gross National Product.[7/]

It is widely recognized that the increase in passengers and cargo, and the magnitude of revenue involved, have not prompted the government to improve the federal inspection process for international air commerce. Over the past five years, international air passenger travel has increased by 41%[8/] and air cargo tonnage by about 29%[9/] while the number of Customs inspectors, for example, at airports has not increased at all.[10/] This has resulted in lengthy inspection periods, which have imposed time and financial burdens on the traveling and shipping public, and the airline industry as well.[11/] A Government Accounting Office report on delays in the federal inspection process at airports in New York and Miami provides evidence that such inefficiency may have cost air travelers at those airports more than $26 million in 1982.[12/] Air carriers, too, incur increased operating expenses, when multi-million dollar aircraft and flight and maintenance crews are prevented from being utilized optimally by delays in inspection practices and procedures. Localities, fearful of losing revenue and goodwill from past and potential international visitors, have also called for improvements. The County Manager of Dade County reported in January that at Miami International Airport inspection problems were "worse than ever."[13/]

Executive and legislative branch studies described in this analysis, including reports of the Comptroller General to the Congress, have established that efficiencies can and should be achieved in the use of federal inspectors, and also in streamlining their functions to take advantage of modern technology, such as state of the art computers and advanced communications systems. Such improvements would advance the Congressional objective, expressed in the National Tourism Policy Act, to "encourage the simplification, reduction, or elimination of barriers to travel, and the facilitation of international travel

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[7/] See U.S. Travel Service, "The Economic Impact of Foreign Visitor Spending," (September 1980).
[8/] See Appendix A.
[9/] See Appendix B.
[10/] Current budget proposals call for an actual decrease in the number of Customs inspectors.
[11/] See Appendix F.
[12/] See Comptroller General, More Can Be Done to Speed Entry of International Travelers (1979). The analysis of costs to passengers is provided in Appendix G.
[13/] See Appendix H.

generally."[14/] Similarly, action is necessary to facilitate the movement of international air cargo and to reduce the need for more costly holding facilities.

Improvements in the federal inspection system would also be consistent with this nation's commitments as a signatory to the Chicago Convention on International Civil Aviation. Annex 9 to the Convention sets forth facilitation Standards and Recommended Practices designed to "prevent unnecessary delays to aircraft, crews, passengers, and cargo, especially in the administration of the laws relating to immigration, quarantine, customs and clearance."[15/] The United States is obliged to establish to the extent practicable procedures "in accordance with the practices which may be established or recommended...pursuant to this Convention."[16/] An example is the dual channel system for the inward clearance of passengers[17/] and their baggage,[18/] a system which has long been in use abroad but has been implemented only recently at three U.S. airports.

The need for improvements in the federal inspection system is compelling. To achieve these improvements, it appears that the number of federal inspectors must be increased substantially, or that a high priority program be initiated to revise the inspection process, or both. Clearly, actions to modernize and simplify the system, such as implementation of accelerated one-stop passenger inspections, citizen by-pass, machine readable passport examination, and automated selective processing of cargo and express shipments are essential to keep pace with the growth of international air commerce. Past history and the current situation demonstrate the complexity of the issues, and the need for legislative and executive branch officials most familiar with the problems to implement a solution. The airlines wish to be of assistance in this work.

It is hoped that the following analysis will be helpful. It first examines the federal inspection process today and the regulatory responsibilities of the various inspection agencies, then reviews major studies conducted in the past regarding that process, and then presents options and recommendations that may be considered individually or in combination as potential improvements for the current inadequate system.

[14/] 22 U.S.C. §2122.
[15/] See Article 22 of the Convention, 61 Stat. 1180, 1186 (Dec. 7, 1944).
[16/] See Article 23 of the Convention, 61 Stat. 1180, 1186 (Dec. 7, 1944).
[17/] See Annex 9, Chapter 3, V 3.17.1; reproduced in Appendix I, *infra*.
[18/] See Annex 9, Appendix 5, reproduced in Appendix I, *infra*.

II. HOW THE FEDERAL INSPECTION SYSTEM WORKS TODAY

The Airport and Airway Improvement Act of 1982, Public Law 97-248, required the Secretary of Transportation to appoint a task force to be chaired by the Chairman of the Civil Aeronautics Board to conduct a study of airport access problems and issues. The task force study has been completed and was submitted to the Congress on March 10, 1983. The following is an excerpt concerning federal inspection services contained in the task force report:

> "Federal Inspection Services (FIS) at U.S. airports are a significant cause of groundside congestion and delay for international air passengers and shippers. FIS congestion and delay detrimentally impact international passenger and cargo facilitation, disrupt the ability of arriving international air passengers to make planned domestic flight connections, significantly affect the movement of urgent shipments in international commerce, and can affect the capacity of an airport to accommodate international traffic."19/

The delays and disruptions described by the task force reflect the fact that the inspection process today for passengers and cargo arriving in the United States has changed little fundamentally from the days of the steamship. As the Comptroller General noted in connection with cargo, "Customs' inspection requirements are still dictated by a law enacted in 1842,"20/ and many requirements governing passenger inspections are of similar heritage.21/ Delays in the inspection process of three hours or more have been experienced at major U.S. airports including New York and Miami,22/ and concern over delays has been an important factor in prompting carriers at several busy airports to increase substantially the time between the international arrival and the connecting domestic flight.23/ Congress has expressed alarm that the "rapidly increasing volume of both international air passengers and cargo...[has resulted in]...congestion and excessive delays...at U.S. airports of entry."24/

19/ See Appendix J.

20/ See Comptroller General, Customs' Cargo Processing - Fewer But More Intensive Inspections Are in Order 7 (1973).

21/ See Section III, *infra*.

22/ See Appendix F.

23/ At Honolulu International Airport, the standard minimum connecting time from an arriving international flight to a domestic connecting flight has increased, for example, from 90 minutes in January of 1973 to 120 minutes in January of 1983. At San Francisco International, the increase for the same period has been from 75 minutes to 135 minutes. Source: Official Airline Guide.

24/ S. Rep. No. 97-192, 97th Cong., 1st Sess. 21 (1981). This concern was forcefully reiterated in September of 1982. See S. Rep. No. 97-547, 97th Cong., 2nd Sess. 24 (1982).

For the international traveler and shipper, there is little need to detail the elements of the federal inspection process at U.S. airports. They have had time, often an abundance of time, to anticipate and participate in that memorable process. Passengers know from personal experience that arrival in the U.S. after a long international journey can mark the beginning of an exhausting experience. Shippers know that if their important shipments arrive after 5:00 p.m., or on a weekend, the cargo will often sit unprocessed until at least the next business day, and, sometimes, days beyond that.

While there are variations at some airports participating in tests, the current passenger inspection process through the airport facility is the traditional two-stop system. With hands filled with inspection forms, receipts, passports, tickets, baggage checks, and hand baggage, the arriving passengers first stand in line to be interviewed by Immigration officials before claiming their checked baggage.[25/] Documents are examined to determine whether they can be admitted to the United States, and their physical appearances are considered for possible health problems.

After the standing in line and the completion of the Immigration examination, the formal federal inspection process is suspended while the passengers claim their checked baggage. They then move to another area to stand in another line to await another examination. The Customs official conducts an interview. The inspector enters the traveler's name and date of birth in the Treasury Enforcement Communications System for a computer check against a list of known or suspected violators. The inspector reviews the passenger's Customs Declaration and examines all or part of the passenger's baggage.[26/]

Either during the wait for the first or second inspection, arriving passengers are often faced with legitimate concerns. Will they make connecting flights at gates located on the other side of the airport? Will persons meeting them who have been driving in circles in the passenger pick-up area since the scheduled arrival time, understand and not be inconvenienced or worried about

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[25/] Although the federal agencies are authorized to expend public funds to acquire space at airports for the performance of their public inspection functions, e.g. 49 U.S.C. §1509(e), it is the airlines and other airport tenants which pay for inspection agency space and periodic, costly modifications.

[26/] If plants, animals, or food are discovered or suspected, the passenger may be referred to yet another inspection conducted by the APHIS inspectors from the Department of Agriculture.

their whereabouts? Such worries are naturally exacerbated if the lines are long, their children fatigued, and the number of bags sufficient to require the pushing of baggage forward with feet and knees. Only after this second inspection and endurance test is concluded are passengers able to continue their journeys.

For experienced and inexperienced international travelers alike, this frustrating and fatiguing process is no shock. The inspection system has been the subject of innumerable newspaper and magazine articles. Few television viewers have not seen the newsclips of wall to wall, agitated passengers, inching along their suitcases in the crowded and noisy inspection areas. Public complaints about the system have been so vocal that the federal government has authorized and completed study after study, some described later in this analysis, recommending improvements that are, however, rarely, if ever, adopted. The airlines, themselves, have had to adjust their connecting schedules to accommodate delays. Upwards of 30% of international passengers need domestic connections.

While not as well known generally, the problems associated with the processing of international air cargo and express shipments are equally frustrating. Speed of delivery is the very lifeblood of the air cargo industry. But the advantages of being able to ship cargo and documents across the ocean in a matter of hours are greatly diminished when the system of inspection and documentation can delay delivery for days. Such delay can also result in the uneconomical acquisitions of more holding facilities when cargo is not promptly processed on a daily basis. Moreover, this warehousing of cargo greatly increases the potential for security problems.

Shipments must go through both an inspection and evaluation process. The inspection process is designed to ascertain the accuracy of the merchandise description and quantity and to assure that any import quotas are not exceeded, while the evaluation process is undertaken to make certain that correct duty is paid. There is no dispute about the necessity for a system of examination and evaluation. The question is whether the most advanced, efficient, and productive techniques have been and will be utilized to meet Customs' dual obligations of enforcement and the facilitation of the movement of international commerce. In the past, the answer has been no. Recent indications are that greater implementation of modernized procedures may be forthcoming, by utilizing, for example, far more than in the past, an automated approach for selective cargo examinations, and selective entry processing. Problems have also surfaced in the operation of programs which establish necessary controls on export shipments. For example, a lack of coordination between Customs and shippers has resulted in export shipments being detained without prompt notification being provided to the shipper,[27] or being subject to duplicative inspections.

It would be unfair merely to point to the well-known inadequacies of the passenger and cargo inspection systems, and imply that the federal government is indifferent to the situation. Federal inspectors are hard-working and responsible employees. Their supervisors clearly desire to carry out the requirements of the law. The problem is not a question of good intentions. It is a system which, in spite of good intentions, has become unwieldly, uncoordinated, incapable of adjusting quickly to the dynamic changes of the air transportation industry, and greatly in need of new instructions to carry out its enduring responsibilities.

Before considering what those instructions might be, it will be useful to examine with specificity the duties assigned to the inspection agencies.

III. REGULATORY RESPONSIBILITIES OF FEDERAL INSPECTION AGENCIES

In the nearly 200 years since the creation of the predecessor of the United States Customs Service,[28] Congress has passed many laws establishing an extraordinary variety of border management responsibilities. The traditional work of collecting duties on imports has expanded to include enforcement of hundreds of laws and regulations involving such diverse subjects as international trafficking in controlled substances and the importation of honeybees.

To achieve the statutory objectives, Congress has assigned responsibilities to a number of agencies. At airports, for example, officials from Customs, the Immigration and Naturalization Service (INS), the Drug Enforcement Administration (DEA), and the Animal and Plant Health Inspection Service (APHIS), are generally present. Other agencies with statutory obligations at the border utilize the services of agencies present to assure fulfillment of their legal mandates.[29]

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[27] See Washington Report, December 7, 1982 at 13 (U.S. Chamber of Commerce).

[28] 1 Stat. 29, July 31, 1789.

To understand the breadth of inspection responsibilities at airports and the roles of the principal federal agencies involved, the following summary, highlighting the more important agency roles, is provided.

A. United States Customs Service

Customs is charged with assessing and collecting duties, excise taxes, fees and penalties associated with the importation of merchandise.[30] It is obligated to interdict and seize contraband, including narcotics, drugs, and certain firearms.[31] It is authorized to inspect and search all persons, baggage, and merchandise arriving in the Customs territory of the United States.[32] It may board any aircraft arriving in the United States from a foreign country for the purpose of examining the manifest and other documents and searching the aircraft.[33]

Customs enforces laws designed to protect American business and labor. For example, Customs enforces orders of the International Trade Commission prohibiting unfair practices in the import trade[34] and excluding or changing the duties on imports from countries discriminating against the commerce of the United States.[35] Customs also is instrumental in preventing the importation of articles bearing a false notice of copyright and piratical copies of copyrighted works,[36] and in prohibiting the importation of foreign made articles bearing American-owned trademarks.[37] Customs enforces tariff rate and absolute quotas established by Presidential proclamations, Executive Orders and legislative enactments.[38] It also monitors compliance with country of origin marking requirements,[39] and is authorized to examine "all mail arriving from outside

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29/ The Fish and Wildlife Service does station inspectors at certain designated border areas. The Center for Disease Control provides inspectors or private doctors under contract as the needs of the public health require.

30/ See e.g. Tariff Act of 1930, as amended, 19 U.S.C. §1202 et seq. The current Tariff Schedule of the United States is nearly 800 pages long, exclusive of appendices. Several typical pages are annexed in Appendix K.

31/ 49 U.S.C. §§781-787.

32/ See e.g. 19 U.S.C. §§1461, 1467, 1496, 1582; 19 C.F.R. §162.6.

33/ 19 U.S.C. §1581, 49 U.S.C. §1509; 19 C.F.R. §6.10.

34/ 19 U.S.C. §1337; 19 C.F.R. §12.39.

35/ 19 U.S.C. §1338; 19 C.F.R. §12.39.

36/ 17 U.S.C. §§106, 108; 19 C.F.R. §133.41.

37/ 15 U.S.C. §1124, 19 U.S.C. §1526; 19 C.F.R. §133.

38 See 19 C.F.R. §132.

39/ See 19 U.S.C. §§1202, 1304; 19 C.F.R. §134.

the Customs territory of the United States which is to be delivered within the Customs territory of the United States."[40/]

In cooperation with other agencies, Customs assists in the enforcement of laws relating to the importation of certain foods and cosmetics,[41/] pesticides,[42/] hazardous substances,[43/] cheeses,[44/] milk and cream,[45/] meats,[46/] plants,[47/] agricultural and vegetable seeds,[48/] viruses, serums, and toxins,[49/] domestic and wild animals,[50/] whale products,[51/] tea,[52/] liquors,[53/] motor vehicles and their engines,[54/] and electronic products.[55/] This listing is but a sample.

B. The Immigration and Naturalization Service

The Immigration and Naturalization Service (INS) is responsible for administering and enforcing the immigration and nationality laws of the United States. The agency is responsible for insuring that persons entering into or remaining in the United States are entitled to do so. At the airport this entails such duties as determining the admissibility of aliens,[56/] examining entry documents,[57/] imposing fines,[58/] forwarding requests for asylum,[59/] prohibiting the departure of certain aliens,[60/] receiving arrival and departure manifests,[61/] detaining aliens for observations and examinations related to mental and physical defects,[62/] administering the deportation of excluded aliens,[63/] and seizing vehicles or aircraft believed to have been used in violation of the Immigration law.[64/]

40/ See 19 C.F.R. §145.2. Several types of mail are exempt, and restrictions apply to the opening of certain categories of mail.
41/ See 21 U.S.C. §801 et. *seq.*; 21 U.S.C. §381; 19 C.F.R. §12.1 (a).
42/ See 7 U.S.C. §136(o)(c); 19 C.F.R. §12.1(b).
43/ See 15 U.S.C. §1261; 19 C.F.R. §12.1(c).
44/ See 7 U.S.C. §1854; 19 C.F.R. §12.6.
45/ See 21 U.S.C. §§141-149; 19 C.F.R. §12.7.
46/ See 19 U.S.C. §1306; 19 C.F.R. §12.8.
47/ See 7 U.S.C. §§151-162; 19 C.F.R. §12.10.
48/ See 7 U.S.C. §1592(b); 19 C.F.R. §12.16.
49/ See 21 U.S.C. §§151-158; 42 U.S.C. §262; 19 C.F.R. §§12.17, 12.21.
50/ See 18 U.S.C. §42; 19 C.F.R. §§12.24, 12.26, 12.28.
51/ See 16 U.S.C. §916; 19 C.F.R. §12.30.
52/ See 21 U.S.C. §§41-50; 19 C.F.R. §12.33.
53/ See 27 U.S.C. §203; 19 C.F.R. §12.38.
54/ See 42 U.S.C. §7521; 19 C.F.R. §12.73.
55/ See 42 U.S.C. §263(f); 19 C.F.R. §12.91.
56/ See e.g. 8 U.S.C. §§1103, 1182.
57/ See e.g. 8 C.F.R. §§211, 212, 235.
58/ See e.g. 8 U.S.C. §§1221(d), 1330; 8 C.F.R. §280.
59/ See 8 U.S.C. §1182(d)(5); 8 C.F.R. §208.
60/ See 8 U.S.C. §1185; 8 C.F.R. §215.
61/ See e.g. 8 U.S.C. §1221(d); 8 C.F.R. §§231, 251.
62/ See 8 U.S.C. §1222; 8 C.F.R. §232.
63/ See 8 U.S.C. §1227; 8 C.F.R. §237.
64/ See 8 U.S.C. §1324(b); 8 C.F.R. §274.

C. The Drug Enforcement Administration

The Drug Enforcement Administration is the primary federal law enforcement agency responsible for combatting drug abuse. Among its responsibilities is the investigation and suppression of the illegal importation of illicit substances.[65/] In support of this goal, DEA employs drug enforcement programs at airports[66/] which utilize such tools as a drug courier profile.[67/]

DEA has operational agreements with Customs and INS and the agencies exchange intelligence information on a regular basis.[68/]

D. Animal and Plant Health Inspection Service Of The Department of Agriculture

The Animal and Plant Health Inspection Service regulates the entry of agricultural products into the United States by inspecting passenger properties and shipments at major air, sea, border, and offshore points of entry.[69/] Cargoes and personal possessions involving plants and plant products, as well as general cargoes, are examined for infested plants, agricultural pests, and for prohibited animal products.[70/]

To accomplish such objectives, APHIS is empowered, for example, to issue notices of quarantine prohibiting importation of specified articles,[71/] and establishing quarantine requirements for various kinds of animals.[72/] APHIS works closely with Customs in carrying out its inspection function.

The foregoing examples of the responsibilities of the major inspection agencies demonstrate the diversity of border management concern.

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The functions performed by the agencies are clearly designed to protect and promote the public interest, and, accordingly, are funded by the nation as a whole. From time to time, however, proposals are made to shift

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[65/] See e.g. Controlled Substances Act of 1970, as amended, 21 U.S.C. §801 *et seq.*

[66/] See United States v. Mendenhall, 446 U.S. 544 (1980); reh. denied, 448 U.S. 908 (1980).

[67/] See United States v. Van Lewis, 409 F. Supp. 535 (E. D. Mich. 1976), aff'd. 556 F.2d 385 (6th Cir. 1977).

[68/] See Office of Drug Abuse Policy, *Border Management and Interdiction, An Interagency Review*, 1977 at App. C-5, 6; see e.g. 19 C.F.R. §162.

[69/] See e.g. 7 U.S.C. §§150bb, 150dd-ff; 7 C.F.R. §330, 9 C.F.R. §§91-96.

[70/] See e.g. 7 U.S.C. §1622, 19 U.S.C. §1306, 21 U.S.C. §§102-105; 9 C.F.R. §§92-96.

[71/] See 7 U.S.C. §§159, 160; 7 C.F.R. §319.

[72/] See 9 C.F.R. §92.11.

the costs of these public functions to specific "users" of the federal inspection process. Such proposals have been rejected firmly in the past, and should be in the future. The nation as a whole is the true "user" and primary beneficiary of the federal inspection process, and is properly responsible for funding its operation. Any shift in that longstanding responsibility would be inconsistent not only with very basic governmental principles and important federal statutes designed to promote travel and trade, but also with United States' international obligations, reflected in treaties and agreements.

Over the past 15 years, numerous studies prepared by a variety of authors have suggested improvements for the federal inspection process. A review of the more pertinent of those studies follows.[73]

IV. PREVIOUS REPORTS AND STUDIES ON FEDERAL INSPECTION AGENCY MANAGEMENT

While the federal border inspection process has been the subject of examination for many years, we have chosen for review pertinent studies conducted since 1968. That year witnessed the introduction of the Boeing 747, an advanced generation aircraft with substantially increased passenger and cargo capacity which imposed new burdens on the traditional federal inspection process.

A. U.S. Bureau of the Budget, Interagency Report on Inspection At Ports of Entry, 1968

The study of ports of entry was confined to activities relating to passengers and their baggage. It was designed to provide recommendations for border management improvement which could be implemented quickly to handle an "impending crisis",[74] an expected surge of travelers passing through undermanned and outdated inspection facilities.

For airports, the study recommended "a one-stop system of multiple inspection wherein arriving passengers are inspected by a single officer for all...agencies."[75] Such a system could be expected to expedite passage through the inspection area, provide better manpower utilization, improve space utilization, "place greater emphasis...on high-risk categories and less emphasis on low-risk categories,"[76] and "improve the Government image."[77] The study called for, inter alia, cross designation and training of personnel of the inspection agencies, and development of an interagency management information system "to update risk criteria and evaluate training..."[78]

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[73] A list of sample studies on the general subject of the federal border inspection process is found in Appendix L.

[74] Report at Chapter I.

[75] Report at 9.

[76] Report at 12.

[77] Report at 12.

While the report concluded that adoption of its recommendations could solve the "impending crisis", it went on to call for a single agency in the future. It noted that:

> Planning is made ineffective because no single agency has broad enough jurisdiction to plan for most of the major changes that are needed. Changes are extremely difficult to effect because of the practical difficulties of obtaining unanimous agreement on what should be changed, by whom, when and how much. A single and effective voice to represent the total inspection function with the public, the travel industry, and other groups is entirely lacking.[79]

The report's recommendation for solving this problem was to consider the feasibility of assigning the complete responsibility for the inspection of passengers and baggage to "one of the...agencies now performing those activities."[80]

As the following review of more recent studies will show, the feasibility of assigning inspection duties to one agency has been carefully and comprehensively considered.

B. Comptroller General, A Single Agency Needed to Manage Port of Entry Inspections - Particularly at U.S. Airports, May 30, 1973.

Because of a predicted surge of international air arrivals, the Comptroller General reviewed the federal inspection system, primarily at John F. Kennedy International Airport. He found that "a fragmented approach to port-of-entry inspections will not allow the development of a more efficient and effective inspection system,"[81] and recommended that the agencies involved cooperate in developing "single-agency management of port-of-entry inspections."[82] He concluded that the benefits of such a system would include uniform administrative policies and procedures, improved "scheduling, planning, and coordination", elimination of duplication, and reductions in space and staff requirements and inspection time.[83]

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[78] Report at 17.
[79] Report at 56.
[80] Report at 56.
[81] Report at 21.
[82] Report at 21.
[83] Report at 21.

C. Office of Drug Abuse Policy, Executive Office of the President, Border Management and Interdiction: An Interagency Review, 1977.

This report was prepared by the Office of Drug Abuse Policy in coordination with the Office of Management and Budget. It followed a comprehensive review of federal border control and law enforcement activities. The Review Team included full-time representatives from the Departments of Justice, Treasury, and Transportation, as well as Customs, INS, and DEA.

The Review Team recommended a consolidation of Customs and INS "into a border management agency to provide control management over the key border functions and resources."[84] Such a consolidation was recommended for two principal reasons. First, the Review Team found a lack of coordinated border management.

> Each of the border agencies is responsible for a specific part of border control and each agency pursues its own mission, sometimes in competition with the other Federal border agencies and interests. When conflict between agencies appears, there is no effective mechanism to resolve the problem...[e]ven though interagency agreements exist in writing.[85]

The second reason for the recommendation of consolidation was a finding of considerable overlap and duplication of effort. The report found that:

> A merger of the principal border enforcement agencies would significantly reduce overlap and duplication of effort and greatly enhance the overall effectiveness of border operations. It would allow management greater flexibility in responding to peak workloads and to immediate crises. A single border management agency would also allow consolidation of management and support functions which should create significant savings.[86]

With respect to airports, the report found that "elimination of the duplicative management structure and the potential efficiences in a consolidated inspection force could improve airport inspection."[87]

In arriving at its conclusion, the report rejected three other options:[88]

1) that no consolidation be initiated, but additional funds be provided the agencies to improve their present performances;

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[84] Report at iii. The recommendation included the suggestion that the activities of Agriculture, Fish and Wildlife and the Center for Disease Control not be consolidated immediately, but be considered for future consolidation. See Report at 51.

[85] Report at 38.

[86] Report at 45.

[87] Report at 41.

[88] See Report at 46-56.

2) that a limited consolidation take place with responsibility for ports of entry given to either Customs or INS, and responsibility for patrol of land borders given to the other agency;

3) that the consolidation of Customs and INS be augmented by the inclusion of the Coast Guard.

The report found that merely increasing funds would not cure the absence of central management and the presence of overlap and duplication of effort;[89/] that a limited consolidation of specific functions would not eliminate "competition between agencies" and would "continue[d] duplication on part of the management structure;"[90/] and that inclusion of the Coast Guard would raise more problems than it would solve.[91/]

The mechansim for enacting the Report's recommendation for the consolidation of Customs and INS in a new agency was "an appropriate reorganization plan [which would place] the consolidated border management agency in a Cabinet department consistent with overall reorganization planning."[92/]

D. President's Reorganization Project, Reorganization Options Related to Border Management, 1977. [93/]

This draft report made findings on the status of federal border management and developed options for improvements. The premise of the report was "that improved control of the national borders could benefit the many Federal domestic programs which are linked to border activities."[94/] The authors found that among the factors requiring improvement were "[s]erious problems of overlap, duplication of effort, and lack of coordination...between the two principal agencies involved at the land borders, Customs and INS."[95/] The authors found that "[t]hese problems significantly hamper effective border control."[96/] In the airport context, the report noted that "[n]arcotics slip through ports of entry because of the confusion and delay inherent in the duplicate inspection process carried out by INS and Customs at international airports."[97/]

[89/] Report at 48.
[90/] Report at 50.
[91/] Report at 56.
[92/] Report at 59.
[93/] This Report was released to the public in draft form.
[94/] Report at 2.
[95/] Report at 4.
[96/] Report at 5.
[97/] Report at 11.

The report set forth four solution options which it believed were worth examining. They were very similar to those considered by the Office of Drug Abuse Policy described, supra. The first option was to make "no organizational change but improve coordination and increase resources to selected functions and agencies."[98] The advantages of this approach included that it was the least disruptive and permitted agencies to "continue emphasis in areas of specific expertise."[99] Its disadvantages were said to include a continuation of "the fragmented approach of the past" and "duplicative management and support structures and overlapping responsibilities with loss of economies which could result from consolidation."[100]

The second option was to combine and unify "the patrol functions of Customs and INS in one department (Justice or Treasury); and the inspection functions of Customs and INS in the other department (Treasury or Justice)."[101] The advantages were said to be, inter alia, an elimination of "overlap and duplication in selected functions," and "minimal disruption to existing organizational structures."[102] The disadvantages included failure "to recognize the interrelationship of patrol and inspection functions to overall border management" and continuation of "duplicative management and support structures."[103]

The third option was the establishment of a Border Management Agency containing the patrol functions of Customs and INS in one unit, the inspection functions of Customs and INS in another unit, and "the remaining functions and support activities of either Customs (if in Treasury) or INS (if in Justice)."[104] The agency (Customs or INS) no longer having inspection or patrol responsibilities would retain its organizational identity in its present department, and would continue to perform its non-border regulatory functions. The advantages of the approach were said to include the provision of "a single manager responsible for the major functions of inspection and patrol" and a reduction of overlap with an increase in efficiency.[105] The principal disadvantage was found to be creation of "personnel turbulence and disruption during changeover."[106]

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[98] Report at 12.
[99] Report at 12.
[100] Report at 13.
[101] Report at 13.
[102] Report at 14.
[103] Report at 14.
[104] Report at 15.

The final option was the establishment of a Border Management Agency "combining all of Customs and INS."[107] The advantages and disadvantages were said to be essentially the same as those of the third option.[108]

Although the authors did not single out any of the options as preferable, they recognized that changes in border management policy were necessary, and that the duplicative inspection system at airports was hindering efficient narcotics control.

E. National Immigration and Naturalization Service Council, Managing Consolidated Border Enforcement Resources, 1977.

In response to a request for comments on the President's Reorganization Project's Draft described, *supra*, the National Immigration and Naturalization Service Council of the American Federation of Government Employees prepared a paper advocating the transfer of "Custom's Patrol Agents, support employees and equipment now deployed along both borders and the Gulf Coast and those Customs Inspectors, employees and equipment now deployed at United States ports of entry" to INS.[109] The report acknowledged that some problems would result including those associated with integrating Customs and INS supervisors, training for new responsibilities, redesigning of facilities for one-stop inspection, transferring collected duties to the Treasury Department, and adopting common overtime schedules.[110]

The Council was confident that such problems could be solved "with little disruption of service."[111] Apart from pointing to possible areas of temporary difficulties, the significance of the report is that knowledgeable federal government employees believed that consolidation was feasible and would enhance the federal inspection process.

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[105] Report at 16.
[106] Report at 16.
[107] Report at 17.
[108] Report at 17-18.
[109] See Report at 1.
[110] See Report at 1-7.
[111] See Report at 7.

F. Comptroller General, Illegal Entry at United States-Mexico Border, Multiagency Enforcement Efforts Have Not Been Effective in Stemming the Flow of Drugs and People, 1977.

The focus of this study was "the activities and resources of Federal agencies having direct, indirect, and supporting responsibilities for law enforcement along the United States-Mexico border."[112] The examination found "costly overlapping and poorly coordinated enforcement activities and support systems..."[113] The report emphasized that:

> Separate agencies with different orientations continue to identify the best activities to meet their missions with limited consideration for the activity of others. This has led to the development of separate but similar lines of effort that continue to dilute border coverage and impact. Little consideration is given to overall border security.[114]

The report concluded that action was needed to obtain maximum border security with available resources by minimizing unnecessary duplication and overlapping. The solution of the problem was said to include "law enforcement interdiction at every port-of-entry...handled by one agency, whether it be Customs or INS."[115] Besides managing the day-to-day operations of the ports of entry, the agency should be responsible "for the research and development of all new techniques and devices to improve detection of people, drugs, and other contraband entering illegally."[116]

The crux of the report was that the system of disparate federal agencies, having separate statutory responsibilities and competing for limited Congressional funds, was simply not providing the efficient and effective border management the United States required. The study recommended that Congress hold hearings and enact new legislation.

G. Comptroller General, Customs' Cargo Processing — Fewer But More Intensive Inspections Are In Order, 1978.

In view of the "rapidly increasing volume of imports", the Comptroller General examined Customs "traditional approach to inspecting cargo"[117] and found it to be inadequate. He found that the statutory requirement that Customs inspect a portion of each cargo shipment and an increasing workload had combined to "force(s) Customs either to perform very limited inspections or to seriously impede the flow of imported cargo."[118]

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[112] Report at 4.
[113] Report at 18.
[114] Report at 50.
[115] Report at 50.
[116] Report at 51.
[117] See Report at i.

The report found that if "Customs is to successfully enforce the import laws and not impede the flow of cargo...it needs to adopt a comprehensive selective cargo inspection system."[119] Such a system would include "elements of scientific random selection, specific selection, and post audit(s)."[120] It would allow Customs to perform fewer, but more comprehensive inspections, and would deter import violations "because importers would never know which shipments would be inspected."[121]

H. Comptroller General, More Can Be Done to Speed the Entry of International Travelers, 1979.

As part of the Customs Procedural Reform and Simplification Act, P.L. 95-410, Congress ordered the Comptroller General to "study the clearance process for individuals entering the United States and recommend ways to expedite the process, particularly for air and sea travelers."[122] To examine the problems of air travelers, the report concentrated on airports located in New York, Miami, and Los Angeles.

The investigators found that "air travelers, in particular, are dissatisfied with long delays, and their dissatisfaction is heightened by the comparisons they can make with foreign inspection systems, which move people much quicker."[123] They also found that a serious lack of inter-agency cooperation contributed to delays.[124]

The report recommended that agencies improve their cooperation, and that primary inspections be conducted "before travelers claim their checked baggage."[125] It also recommended that "inspectors selectively inspect travelers and their possessions for agricultural products."[126]

The report concluded that if the absence of agency cooperation continued, and the aforementioned recommendations were not implemented satisfactorily, two alternatives should be considered:

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[118] Id.
[119] Report at iv.
[120] Report at 23.
[121] Id.
[122] Report at 1.
[123] Report at 6.
[124] Report at iii.
[125] Report at iv.
[126] Id.

> One is to adopt the red/green system...Another is for the President, through reorganization authority, or the Congress, through legislation, to make one agency responsible for inspections.[127/]

I. Comptroller General, One-Stop Inspection System Speeds the Entry of International Travelers, 1982.

In response to a request from the Chairman of the Subcommittee on Trade of the House Committee on Ways and Means, the Comptroller General monitored a six-month test of a one-stop inspection system utilized by Customs, INS, and APHIS, at airports in Miami and Los Angeles. The test was mandated by the fiscal year 1982 authorization report for Customs.[128/] It was not intended to examine the desirability or feasibility of a consolidation of agencies, but merely to evaluate the test.

Under the test, travelers would go to a primary inspection station, immediately upon deplaning, without their checked baggage. One inspector would then conduct the primary inspection for all the agencies. Depending upon the results of the primary inspection, travelers would either be permitted to claim their baggage and exit through a Customs control point, or be required to undergo a more detailed inspection. Referrals for this secondary inspection could also be made by roving inspectors once checked baggage had been claimed.

The report found that this one-stop "sped the entry of travelers, and provided a more efficient use of the Customs and Immigration inspectors."[129/] From a law enforcement perspective, the one-stop system resulted in an increase in seizures at one airport and a decrease at the other. Seizures of non-admissible agricultural products increased at both airports.[130/]

The report concluded that "because of the clearly demonstrated gains of the one-stop system regarding timeliness and efficiency and the uncertain and perhaps non-existent drawbacks from a law enforcement standpoint, we believe the one-stop inspection system is an improvement over the procedures used in the past."

127/ Report at iii.
128/ Report at 2.
129/ Report at 7.
130/ Report at 12.

Each of the foregoing studies saw a need for improvement, and proposed solutions. That need continues to exist. The following section will set forth a series of options which, individually or in combination, should be considered as possible methods to improve the federal border inspection process now and in the future.

V. ORGANIZATIONAL OPTIONS AND ALTERNATIVES WITH RESPECT TO FEDERAL INSPECTION AGENCY MANAGEMENT AT AIRPORTS

Historically, airport inspection control has been exercised by the agencies charged with enforcing each separate substantive law and its related domestic program. At one time separate airport inspections were conducted by the Public Health Service (now the Center for Disease Control in the Department of Health and Human Services), Customs, INS, and APHIS. Today at many United States airports of entry, separate and largely uncoordinated inspections continue to be made by Customs, INS, and APHIS.[131]

The effect of such a narrow, program-oriented system for performing similar airport inspection functions has been waste and inefficiency, not only in the performance of the functions, but also in the need to acquire state of the art systems and facilities to support these functions, such as advanced telecommunications and computer hardware. Fragmentation of inspection control at airports has also meant a lack of overall planning, with the present disjointed organizational structure resulting all too often in the lack of any overall policy for managing the flow of travelers and goods entering U.S. gateway airports.

With regard to airports, effective control of the United States' border has a direct impact on a wide range of government programs, including narcotics control, alien regulation, contraband interdiction, and protection of the economic, health, and agricultural interests of the United States.

Customs, INS, and APHIS have separate inspection units which perform comparable duties, often in the same location, at the same time, employ similar enforcement techniques, and require similar support systems and airport facilities. The results are:

- An outdated and cumbersome federal inspection process;
- A duplication and overlap of agency functions;

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[131] The Center for Disease Control and other agencies may participate in the inspection process under special circumstances.

- Separate and uncoordinated managers and management policies; and
- Excessive federal overhead caused by such factors as duplicative facilities, investigatory tools, and supervisory personnel.

With this background, we believe that the following options, which are presented without an order of preference, merit consideration.

A. Make no organizational change, but improve inspection techniques and agency coordination, and increase inspectors and resources for preclearance and U.S. gateway airports.

Some important improvements can be made without an overhaul of current organizational structure. Universal implementation of ASIST, the one-stop inspection process used at Los Angeles, particularly when combined with the dual channel system in place at Houston, would reduce significantly passenger inspection delays. The expedited and extensive utilization of a machine readable passport system would also cut processing time. Widespread employment of an automated and selective system of cargo clearance, with a concurrent simplification of forms and other paperwork, would greatly expedite the movement of freight.

Better inter-agency and intra-agency coordination on the headquarters, regional, and local level on such matters as workload, hours of service, and sharing of information would bring about improvements. Better coordination with the public is also essential. Programs establishing necessary controls on exports, for example, should require inspectors who detain a shipment to notify the shipper promptly, should assure that inspectors understand fully the nature of cargo subject to the program, and should prevent unnecessary or duplicative inspections of the same shipment. Similarly, better coordination with the airline industry in such matters as facility modification would generate greater cooperation leading to a more efficient system. When facilities are to be modified, the carriers who pay for such modifications should be consulted from the initial design stage through the final construction phase.

As noted earlier, the number of inspectors has not kept pace with the increase of passengers and freight, and current budget proposals call for a substantial decrease in inspectors. An increase in authorized inspectors, having greater access to improved computer information systems, would certainly expedite the inspection process. Greater cross-utilization of inspectors would improve the system. To a large extent, inspectors working along the contiguous U.S.-Mexican and U.S.-Canadian land borders are trained to perform the functions of each agency. That approach could be followed at international airports as well. Indeed, cross-trained inspectors are the cornerstone of the accelerated specialized inspection system which has worked so well in Los Angeles.

Implementation of the Canadian Inspection System, or variations thereon, is also worthy of consideration. Basically, it works as follows:

a) Upon deplaning, arriving international travelers proceed to a primary booth manned by a Customs inspector who has been cross-trained to perform immigration, health, and agriculture quarantine primary functions. Each traveler, whether a returning citizen, a visitor, or an immigrant is queried, and hand-carried baggage is subject to inspection by this Customs primary inspector.

b) Travelers without immigration, customs or agriculture problems proceed directly to the airline baggage carousels or belts to claim their baggage and then are free to depart from the inspection facilities.

c) Travelers having special immigration, customs, or agriculture problems are referred to a secondary inspection.

The Canadian system, then, is generally a one-stop system utilizing cross-trained Customs inspectors and providing speedy inspections and increased inspector productivity.

While not eliminating duplicative functions and management, this approach of improving techniques and coordination and increasing the number of inspectors and amount of resources could improve efficiency without the possible personnel and organizational questions prompted by a consolidation of agencies or functions, although it would require an increase in federal expenditures.

B. Establish a Single Management Concept for Airports

This approach would: eliminate the current overlap and duplication of agency functions; curtail excessive federal overhead by ending redundant facilities, investigatory tools, and supervisory positions; create a single policymaker accountable for all airport inspection performance; and provide an opportunity for initiating new approaches to the inspection process without the obstacle of differences of opinion among agencies. The Single Management Concept for Airports could be established in any of the following ways:

1. Combining the workforces of Customs, INS, and APHIS and placing the new agency in a Cabinet Department

Placement of the new combined agency in Treasury, Justice, or Agriculture would provide the obvious advantage of experience which would reduce transition problems. Each of those agencies has a substantial familiarity with the responsibilities and techniques of the other agencies, based on day-to-day operations. Each is aware of training requirements and is cognizant of the use and value of advanced technology in the performance of inspection functions.

The list of potential parents should not end there, however. Consideration could also be given to the Departments of Transportation (DOT) and Commerce.

The placement of the agency in DOT would be consistent with its statutory duties "to provide general leadership in the identification and solution of transportation problems"[132] and to regulate "air commerce in such manner as to best promote its development."[133] DOT also has experience in border management responsibilities as the supervisory Department of the Coast Guard, which was transferred to DOT from the Department of the Treasury seven years ago.[134]

Placement of the agency in the Department of Commerce would enhance Commerce's ability to meet its statutory duty to "carry out a comprehensive program designed to stimulate and encourage travel to the United States...(and to) encourage the simplification, reduction, or elimination of barriers to travel, and the facilitation of international travel generally."[135] Commerce is familiar with border management issues through its export control and foreign trade data obligations which are carried out with the assistance of Customs.[136]

From a Congressional oversight perspective, the new agency would be subject to a single budget, instead of three, and one, instead of three committees in each body of Congress. Placing the new agency in any single Department would necessitate the combination and transfer of federal employees, which could create employee dislocations and administrative difficulties. Such concerns would have to be weighed along with the potential benefits to the inspection process and the traveling and shipping public.

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[132] See 49 U.S.C. §1651(b)(1).
[133] See 49 U.S.C. §1303(a).
[134] See 49 U.S.C. §1655(b).
[135] See 22 U.S.C. §2122(i), (4).
[136] See 19 C.F.R. §161.2(a)(5).

2. Combining the workforces of Customs, INS, and APHIS to create a new, independent "United States Inspection Service."

As with the previous option, this approach would establish a single manager eliminating overlap and duplication, and establishing clear accountability for inspection performance. By ending inter-agency problems with coordination, and competition, it would enhance efficiency and effectiveness. It would also be subject to the same budgetary and Congressional committee considerations. While, for the purposes of this analysis, its jurisdiction would not extend beyond airports, it is possible that such an agency could assume the entire federal inspection duty.

Since no one agency would be either "submerged" or "surviving", inter-agency disputes based on tradition and loyalty would be less likely to surface. It would be anticipated that identical salaries and fringe benefits including a standard inspector uniform would be adopted under this program.

Other than for cross-training, there would be no need for training programs in view of the experience of the staff. The problems associated with employee transfers, such as reconciling seniority disputes, would probably exist. Some administrative problems, inherent in establishing any new agency, would no doubt arise, but should be minimized because of the experienced workforce.

3. Establish a private or quasi-governmental organization to perform the functions of the inspection agencies.

Another concept would be a contractual arrangement with a private entity or establishment of a quasi-governmental organization. In either case, new legislation would be necessary. Under this approach, Congress could authorize a private entity to perform the inspection functions. At airports today, the airline industry is required by federal laws and regulations to conduct inspections designed to prevent air piracy and crimes aboard aircraft. In addition, experts from the private sector perform vital governmental air safety functions as designated engineering representatives and examiners under authorization from the FAA. One, or several other private entities, could be empowered to perform other inspection functions.

Unencumbered by years of traditional governmental inspection methods and management, a private or quasi-governmental entity could generate fresh ideas and new techniques to accomplish the statutory objectives. The entity could be supported, for example, under contractual arrangements funded by duties collected.

This option could provide the following advantages: elimination of current duplication and overlap; installation of a single manager with total accountability for performance; existence of profit incentive as motivation for greater productivity and efficiency; and reduction of federal budget requirements. Skeleton federal staffs would have to be available to exercise federal enforcement and arrest powers. Disadvantages could include federal employee dislocations, administrative problems inherent in any new organization performing a complex task, and the absence of a readily available fully-trained workforce. This option would be difficult to implement, and would be controversial.

C. Establishment of an Interagency Facilitation Board

An alternative to the consolidation and transfer approach is the creation of an Interagency Facilitation Board. This Board would oversee the federal inspection process of passengers and cargo at U.S. gateway airports-of-entry and preclearance airports to insure that the most expeditious procedures are followed consistent with inspection agency enforcement requirements. Although such a concept would not solve all inter-agency differences and would not achieve the efficiency and productivity increases, and potential cost savings, of a consolidation, it would be a step in the right direction and could lead to an eventual consolidation of the agencies.

The Interagency Facilitation Board would select a Chairman from a panel comprised of the Secretaries of State, Commerce, Transportation, Treasury, Agriculture, and the Attorney General to serve a two-year term. The Chairman would be responsible for the coordination of the several inspection agencies in developing and implementing an efficient passenger and cargo processing system.

Each agency would provide an equal number of management specialists who would comprise a select management group, divided into regional teams to oversee the inspection operations of INS, Customs, and APHIS at the airports-of-entry and preclearance airports within their particular region.

The individuals making up the management teams would be given management authority over all inspector personnel so that maximum efficiency in carrying out the inspection process would be realized. Congressional oversight for the proper functioning of the combined inspection process (i.e., Customs, Immigration, and Agriculture) would be given to the Government Operations Committees with primary legislative authority to the appropriate jurisdictional committees.

Under this approach, leadership would be provided at the working level where the coordination problems actually exist; the cost of providing several management specialists from each agency would be minimal, budgetary impact on any one agency would be less; and each agency would maintain its own identity, responsibility, expertise, and authority.

Congressional committees would maintain oversight authority over the individual inspection agencies. The Board would be required to report annually to the President. Finally, the Interagency Facilitation Board could serve as a working model and intermediate step to the eventual consolidation of Customs, Immigration, and APHIS into a single inspection agency.

D. Assign to One Existing Agency Responsibilities to Process Air Travelers and to Another, Responsibilities to Handle Air Freight.

The concept of separate "people" and "freight" airport inspection agencies may have appeal because it would be simple to implement and is a straightforward alternative. Basically, the concept envisages one inspection agency to be solely responsible for the processing of all air travelers and their baggage entering U.S. gateway airports or at pre-clearance airports. The second agency would have complete responsibility for the processing at airports of all goods and merchandise other than that accompanying air travelers. One possible complicating factor is that some freight is carried by passengers acting as couriers.

This approach recognizes that people and their baggage are different from freight and merchandise, and that different inspection facilities, techniques, and objectives apply. It should be noted that over twenty-five percent of arriving air travelers are processed at preclearance locations, but no freight is processed at these locations. A continuation of the passenger preclearance process under this option, as well as all other options, is necessary.

Under this concept, APHIS would continue to perform its functions. This option would result in the continued existence of several inspection agencies, but it would eliminate some duplicative effort, permit better scheduling for peak workloads, and avoid employee dislocations caused by consolidations.

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No option has addressed the transfer or consolidation of the Drug Enforcement Administration or its functions. DEA's activities at airports are of a different nature than those of the primary inspection agencies, and are outside the scope of this analysis. Similarly, other agencies, such as the Fish and Wildlife Service and the Center for Disease Control should be able to accomplish their statutory objectives without any difficulty should any of the foregoing options be adopted.

VI. RECOMMENDED METHOD OF PROCEEDING

The national policy to encourage and strengthen U.S. international travel and trade requires immediate and longer term actions to improve federal inspection services at gateway airports.

This analysis reviews the federal inspection system, current regulatory responsibilities, previous reports and studies on inspection agency management, and explores possible interim relief measures as well as organizational options. Its prompt consideration by appropriate agencies of the federal government and committees of Congress is both needed and urged.

Also needed and urged are definitive plans and schedules for the immediate and longer term actions necessary to improve federal inspection services. The following method of proceeding is recommended:

A. Prompt appropriation by this Congress of sufficient funds to assure an adequate number of federal inspectors at U.S. gateway airports and firm direction to federal inspection agencies to assign such inspectors in a manner consistent with passenger and cargo traffic demand.

B. Within the next 60 days, action directed by a Presidential Executive Order or by Congressional Resolution to require federal inspection agencies to:

- provide equal priority in the performance of their duties to the facilitation of international air commerce and law enforcement;

- initiate action to implement a one-stop inspection procedure for passengers at all U.S. gateway and preclearance airports;
- develop plans for the installation of an automated system for selective cargo examinations and entry processing at all U.S. gateway airports;
- expedite efforts to utilize machine readable passports and implement a similar system for machine readable visas and border crossing cards; and
- improve coordination of necessary controls on export shipments.

C. Within the next 60 days, appointment of a high level panel to report within 90 days on how to reorganize the federal inspection agencies or implement other procedures to increase efficiency and productivity which would assure that the need to facilitate international air commerce is met for the remainder of this century. Such a panel might include Secretaries from the appropriate Departments, members of Congress, representatives from the White House and OMB, and leaders from national organizations, both public and private, directly interested in this endeavor.

The airline industry stands ready to provide any assistance which will promote progress in this important effort.

APPENDICES

APPENDIX A

AIRLINE PASSENGER AND AIRCRAFT ARRIVALS IN UNITED STATES FROM FOREIGN COUNTRIES

	Passenger arrivals	Aircraft arrivals[1]
Fiscal year:		
1975	15,500,000	211,700
1976	16,500,000	215,900
1977	18,400,000	216,800
1978	21,600,000	261,100
1979	24,400,000	271,800
1980	25,800,000	262,600
1981	26,800,000	277,800
1982	[2] 26,000,000	259,800

[1] Includes passenger and all cargo aircraft.

[2] ATA estimate.

Note.—Above passenger data excludes crew members which in fiscal year 1981 amounted to 2,800,000.

Source: U.S. Customs Service.

APPENDIX B

U.S. AIRBORNE IMPORT SHIPMENTS

	Weight (pounds)	Value
Fiscal year:		
1975	1,063,000,000	$8,917,000,000
1976	1,212,000,000	10,920,000,000
1977	1,311,000,000	12,578,000,000
1978	1,506,000,000	17,923,000,000
1979	1,439,000,000	22,037,000,000
1980	1,344,000,000	28,044,000,000
1981	1,603,000,000	29,968,000,000
1982 pre	1,688,000,000	30,933,000,000

Source: U.S. Bureau of Census, "U.S. Airborne Exports and General Imports".

APPENDIX C

Fiscal year:	*U.S. Customs' duties*
1978	$6,729,000,000
1979	7,652,000,000
1980	7,482,000,000
1981	8,511,000,000
1982	9,278,000,000

Source: U.S. Bureau of Census, "Customs USA" 1982.

APPENDIX D

Operating budgets for fiscal year 1982

U.S. Customs Service	$527,173,000
Immigration and Naturalization Service	441,527,000
Animal and Plant Health Inspection Service	277,382,000
Total	1,246,082,000

Source: U.S. Customs Service, Immigration and Naturalization Service, and Animal and Plant Health Inspection Service.

APPENDIX E

Measures of foreign visitors' economic contribution, 1981

Expenditures in United States	$12,200,000,000
Payroll income generated	$2,500,000,000
Employment generated	320,000
Federal tax revenue generated	$650,000,000
State tax revenue generated	$330,000,000
Local tax revenue generated	$130,000,000

Source: U.S. Travel Data Center, "The 1981–82 Economic Review of Travel in America".

APPENDIX F

[From the Miami Herald, Jan. 8, 1983]

END THE STACKUP

Among international travelers, Miami International Airport (MIA) is fast developing a reputation as a great place to suffer. Inexcusably irresponsible failures by U.S. Immigration and Naturalization Service (INS) and Customs officials are solely to blame. Their callous disregard for efficiency threatens not only the comfort, convenience, and safety of the travelers that they serve so poorly. These officials also endanger the reputation and economic-development potential of greater Miami.

Few times are more predictable as peak-travel periods than the first several days after January 1. At MIA's international-arrivals center on those days this year, however, the peak load almost become a mob. Credit inadequate INS and Customs staffing for that.

Travelers entering that MIA facility had just escaped up to 10 hours cramped in airliner seats, bear in mind. Because of the INS-Customs breakdown, this is what they found:

All halls were jammed. Few seats were available. Access to restrooms was restricted. People became ill. Tempers frayed. Eventually police were summoned to control the crowds, lest they riot.

The average international traveler being processed through MIA then had to wait 2½ hours to gain clearance. Some people waited as long as 4 hours. Who wouldn't be outraged?

The INS was most to blame. Even under normal conditions, INS staffing at MIA is skimpy. This time it was worse. For extended periods during the peak, only 13 INS agents staffed the 34 available inspection booths. INS's best effort was to man 19 booths. Even that level seldom was attained. One reason was the unprecedented amount of sick and funeral leave taken then by INS staff.

Customs provided 32 agents at peak. Because of strict, inefficient procedural rules, however, the Customs staff is prohibited from doing INS work, so the larger Customs staff made little difference.

This kind of outrage causes many serious ripple effects. The bad word travels fast and far. International travelers often are trend setters and opinion leaders back home.

Many of them missed connecting flights. Neither they nor the airlines need that. Airlines either make money or move operations elsewhere. Many are transferring their international business from MIA to Houston, Atlanta, Dallas-Ft. Worth, even Tampa and Orlando. Loss of that market share will affect passenger and cargo traffic at MIA.

It's simply intolerable that Miami should have to bear this unwarranted burden. Bureaucratic bungling of Federal agencies is principally at fault. From Customst and INS must come the obvious solution—and fast. They must assure sufficient staff at MIA to eliminate this recurring debacle.

Bureaucrats can be slow to move unless the political blowtorch of budgetary pressure is set alight beneath their backsides. South Florida's representatives in Washington have plenty of fuel and many matches. They should not hesitate to turn the heat high.

[From the Journal of Commerce, Jan. 25, 1983]

Seattle Seeks Hike in Customs Manpower

SEATTLE—Port of Seattle officials, concerned about delays in clearing cargo and airline passengers, are seeking increased manpower allotments for the U.S. Customs Service.

Port officials are also advocating a streamlining of Customs procedures.

A rapid growth in container traffic through the port is amounting to almost 20 percent during the past 4 years. It has resulted in delays in Customs processing, port officials said. Port Executive Director Richard D. Ford noted that port activity has increased since 1979 when a hiring freeze was placed on most U.S. Government positions, including those in the Customs Service.

He said Customs has not shifted personnel to ports such as Seattle where substantial growth has been experienced, so Seattle has experienced a considerable number of delays due to a Customs manpower shortage.

The Port of Seattle, being the closest major U.S. port to Asia, frequently voices its geographic advantage in terms of fast cargo throughout the inland U.S. destinations. However, Customs delays have at times tended to offset that advantage.

"It's fine and dandy to be a day closer than California but if it takes 2 days to do the paperwork, your 1 day of advantage turns into 1 day of disadvantage," Mr. Ford acknowledged.

Adding to the problem, he said is the Government's greater attention to drug contraband interception inbound and smuggling high-technology exports not permitted under licensing arrangements shippers have with certain countries.

"The policymakers at Customs have not really matched up the importance of trade with the requirements for more enforcement and allocation of manpower," Mr. Ford said in an interview.

Seattle's problem certainly is not limited to the waterfront. It also involves both cargo and passenger traffic at Seattle-Tacoma International Airport, owned and operated by the port.

"We've seen some diversion of air freighters to San Francisco because of problems in clearing the cargo here," Mr. Ford said.

Of highest priority at this time, however, it to assure that there is ample Customs manpower to handle an expected crush of trans-Pacific airline passenger traffic this spring.

Sea-Tac's flights to and from Japan will more than double on April 1. Under the bilateral agreement between the United States and Japan, United Airlines will offer flights to Tokyo and Hong Kong and Japan Air Lines will enter the Seattle-Tokyo market.

Mr. Ford said all of the extra flights will involve wide-bodied aircraft and that the flights will arrive and originate during two peak periods of the day. Already, he noted, long lines of tourists waiting to clear customs occur at peak international flight arrival periods.

Beyond addressing the Customs manpower shortage, however, there is a need for a fundamental revision of Customs procedures, Mr. Ford believes.

"They (Government officials) trust us on our income tax reporting," he said. "Why not have the companies (receiving import goods) send in their checks? Then, Customs could do some spot audits."

Closer inspection might be required of small and new companies but larger importers should be required to produce documents that can be audited later, about in the manner of individuals sending in their annual tax forms, Mr. Ford said.

"It's pretty hard for a big company to engage in fraud because too many people would be involved," he contended. "Somebody would blow the whistle."

As for contraband, spot Customs officer checks and undercover investigations are performed anyway and could be continued under revised Customs procedures he suggested.

Nearly a year ago, Mr. Ford organized a meeting in Washington, D.C., of three dozen representatives of the maritime, air travel, and related industries who expressed concern with delays involving Customs, Immigration and Agriculture inspection services.

However, no concentrated effort to lobby for a change in Customs procedure resulted from the get together, Mr. Ford said. Presently, he said, the Port of Seattle is working the problem on its own.

[From the New York Times, Sun., Aug. 23, 1981]

Clearing Customs: Still a Hurdle

(By Paul Grimes)

If, when international flights are operating normally, you enter the United States at Kennedy International Airport in New York, you may be walking out of the arrivals terminal less than half an hour after your plane parks at the arrival gate. But you stand an equal chance of being delayed 2 hours or longer. You may spend perhaps 45 minutes of that time in the parked plane because a lot of wide-bodied jetliners have landed within a few minutes of each other and the terminal facilities are jammed.

These estimates come from a variety of sources: Federal and trade surveys, customs and immigration reports and the observations of airline exectuvies stationed at Kennedy. According to the latest figures of the U.S. Customs Service Office in New York, the average time it takes to clear all formalities at Kennedy, including the claiming of baggage, is 45.5 minutes.

All sources agree that delays are most likely to be encountered in late afternoon and early evening, when most planes from Europe arrive. The busiest time of the year is right now, when international travel is normally at its peak. Despite increased inspection staffs, delays are often "tremendous," in the words of Donald Burns, manager of public services at Kennedy for the port authority of New York and New Jersey.

Federal authorities are, however, trying to speed up the customs and immigration procedures at Kennedy, as well as at other major gateway airports. A system intended to speed immigration procedures for U.S. citizens has already been put into effect at Kennedy, and an experimental program in which one inspector does both customs and immigration clearances is being tried in Miami and Los Angeles. Other improvements, like adding more airports to these—such as those seving Tornoto and Bermuda—where customs and immigration procedures are completed before boarding the plane, are being studied.

Earlier this year the Federal Office of Management and Budget had proposed deep cuts in the budget for customs and immigrations inspections. Following protests by the airline and tourism industries the Customs Service was permitted to have its normal 176-inspector summertime complement at Kennedy, and the immigration staff was increased from the usual 150-inspector complement to 170.

While the short-term prospect is for attempts to be made to improve the system as it now exists, more sweeping changes may be on the way. Last June David A. Stockman, Director of the Office of Management and Budget, wrote to Attorney General William F. Smith to say, "The time is ripe for an overhaul of the inspection process."

Jacobus J. Dekker, vice president and general management for the United States for KLM Royal Dutch Airlines, is chairman of a group called European North Atlantic Carriers, representing 13 airlines that fly to and from this country. In this capacity, he recalled to a House subcommittee in June that many of the present immigration and customs rules and procedures were established in steamship days when intercontinental travel was leisurely and relatively rare.

"Travel to the United States," he said, "was typified by a few businessmen, well-to-do vacationers and the great masses sometimes referred to as the 'wretched refuse' from those 'teaming shores' overseas In those days, customs and later immigration procedures could develop leisurely approaches to the problem. Today, however, wide-bodied aircraft bring more passengers into the United States in a few hours than came in over months by steamship."

Mr. Dekker's committee—in fact, virtually everyone I questioned except U.S. officials—favored what insiders call the "red door/green door" inspection system. According to a list provided by the International Air Transport Association, it is used at international airports in 41 countries, ranging from underdeveloped New Caledonia in the Pacific to super-security-minded Israel to virtually all countries in Western Europe.

Under this system a passenger with something to declare is directed by red signs to a declaration area, where the appropriate duties are collected. A passenger with nothing to declare walks under a green sign labeled "nothing to declare." He proceeds though a series of gates and aisles, past observing customs officials who, based on their training, pick out individuals here and there for spot checks.

Mr. Dekker says that after the system was adopted in Amsterdam, customs revenues there surged at a rate 28 percent higher than they had been before and that "substantial increases" under the system had also been reported elsewhere. The gains, he said, "have been attributed by some to the fact that individuals tend to feel a greater sense of responsibility when customs responsibilities are placed directly on them."

Mr. Dekker added, "It would seem that previously in Europe, when every passenger had to privately confront a customs official, as they still do in the United States, some passengers apparently took the position that it was the customs official's responsibility to find that extra bottle of liquor or that bologna sandwich. The red door/green door system relies on the passenger's desire to avoid the more public embarassment of being found with the extra bottle of liquor while standing under the green sign."

The main U.S. objection to red door/green door is based on our rigid agricultural and narcotics laws, under which customs officails feel that at least some contact between a passenger and an inspector is essential. James R. Gorson, director of facilitation of the Air Transport Association, an organization of the American airline industry, says that while his group favors red door/green door, it recognizes that the United States "has a $5 billion agricultural resource to protect."

A high European airline official, who declined to be quoted by name, retorted that many other countries have heavy dependence on agriculture and very strict health controls. He said baggage checks at airports did little to deter the spread of agricultural disease or narcotics. "Most crackdowns against drug traffickers," he said, "come from tipoffs and international police cooperation, not from inspecting luggage."

The 6-month test program that began August 4 in Miami and Los Angeles (and was soon impaired by the air controllers' strike) is a sort of compromise between red door/green door and rigid American procedures. As described by Sidney Reyes, Director of the Passenger Processing Division at U.S. Customs Service headquarters, in Washington, the program, which bears the name ASIST—the acronym for "accelerated special inspection system test," works this way.

Certain immigration and customs inspectors are trained to do each other's job. When a passenger leaves a plane, he is first interviewed by one or the other, and all hand baggage is inspected thoroughly for agricultural problems. the interview determines what happens next: Most travelers pay any assessed customs duty, then are cleared to pick up their checked baggage and head for the exit; a few are asked to undergo further inspection. Everyone who has been cleared, however, must pause briefly at the exit gate, and those without a clearance card or who have aroused suspicion may be turned back.

The anticipated savings in time lies in the fact that the arrival interview takes place before delivery of checked baggage. The onus is on the airline, therefore, not the Government, if baggage is not available when the interview ends. A few days after the test began, however, George Spofford, deputy director of Dade County (Fla.) Aviation Department, complained in an interview that inspection of hand luggage was so much more rigourous in Miami than earlier that new delays were occurring.

While the experimental programs in Miami and Los Angeles were just getting under way when the air controller's strike began, the so-called citizens' by pass program has been in effect at Kennedy for about a year. Airport officials say, however, that the Kennedy program has had very little effect. Under the "citizens' bypass" procedure, U.S. nationals have been exempted from the immigration procedures imposed on foreigners. Baggage, however, has to be picked up before customs clearance, and delays at claim areas often mean that foreign passengers frequently catch up with Americans by the time checked baggage is available. This severely taxed customs inspection and creates delays for all. According to a Customs Service survey, it takes arriving foreigners an average of only 3.6 minutes longer than Americans to clear all formalities at Kennedy.

As one way to speed arrivals in the United States, the Air Transport Association is advocating preclearance operations such as those under which, by international agreement, travelers go through American immigration and customs procedures at airports in Canada, Bermuda, and Freeport and Nassau in the Bahamas. Mr. Gorson cited Tokyo as a departure gateway where American preclearance might be feasible, since flights leave there for Guam, Honolulu, Los Angeles, Seattle, San Francisco, Anchorage, Chicago, and New York.

Mr. Dekker of KLM cautions, however, that an American traveler making connecting flights to return home from Europe would, under a preclearance system, "have to request his luggage be unloaded at his last European stop, wait for the luggage to come down the carousel, stand in a customs line, then load his baggage once again." He sees this as a waste of time and effort by the passenger and a substantial cost to airliens.

While Government agencies study procedures to speed up the inspection and clearance process, committees made up of industry, government, and airport officials have been formed to improve procedures generally, notably the unloading of baggage and its ground transport, two procedures that frequently cause long delays.

A particularly nettlesome problem, in these days of wide-bodied jets and computerized ticketing, is the shortage of shopping carts. Innumerable passengers, in letters to newspapers and complaints reported by Federal agencies, have told of frequent scarcities of shopping carts in the International Arrivals Building at Kennedy, where passengers must claim their baggage themselves and carry it through customs; porters are not permitted inside the inspection area. "It isn't a case that physically we don't have enough carts," said Mr. Burns, the public services manager, "it's a problem of having them in the right place at the right time." He said it often was a problem of getting carts from the customs-inspection area, where passengers abandon them, back to the baggage-claim area, where newly arrived travelers need them.

Until some improvements in the customs and immigration clearance system are firmly installed, Mr. Gorson says, passengers should do as much as possible to help themselves. He urges travelers to:

Be alert to the requirements of each county they visit, including their own.

Be aware that they can speed up American formalities considerably if they do not carry fruits or, say, "a tasty sausage from Italy," which could serve as a trigger to customs inspectors to search their belongings thoroughly.

Be sure that foreign-made cameras that they take from home are registered with customs before they leave. The registration slip will prove that the cameras are not dutiable upon one's return home.

Keep a list of purchases abroad, including prices paid. Receipts also may be helpful.

For detailed tips there is nothing better than the periodically-updated Customs Service leaflet "Know Before You Go." You can get a free copy by asking for it by name on a 12-cent postcard addressed to the U.S. Customs Service, P.O. Box 7118, Washington, D.C. 20044.

Appendix G

ESTIMATED COST OF PROCESSING DELAYS TO TRAVELERS
FY 1982

Location	Average Processing In Excess of 45 Minutes* (Minutes)	Value of Time** (¢ Per Minute)	Number of Travelers FY 1982*** (Millions)	Total Cost To Travelers ($ Millions)
New York (JFK)	7	.28	6.3	12.3
Miami	15	.28	3.3	13.9
				26.2

* Source: GAO Report "More Can Be Done to Speed Entry of International Travelers" August 30, 1979

** Based on value of passenger time of $16.70 per hour as set forth in "DOT's Aviation Cost Allocation Study Benefits" October 1972 and adjusted for inflation.

*** ATA estimate

Los Angeles was also included in the 1979 GAO study. Delays there were even greater than those in New York and Miami. Since that time, however, Los Angeles has implemented a one-stop inspection process which has reduced delays, which warrants its exclusion from this Appendix.

MEMORANDUM

Appendix II

Honorable Mayor and Board of County Commissioners		DATE	January 7, 1983
		SUBJECT	Federal Inspection Process Miami International Airport
M. R. Stierheim County Manager			

Miami International Airport has for well over 20 years suffered with regard to the ability to process arriving international passengers at an adequate rate. This is basically the result of far greater growth at MIA than elsewhere and continuation of historical staffing patterns by the federal agencies favoring areas such as New York. The problem is further complicated at Miami by a much higher percentage of alien arrivals as compared to other major gateways, more difficult processing because of points of origin and, more recently, because of narcotics control measures.

In spite of tremendous local investment in facilities, extensive efforts to obtain improved agency staffing levels and to obtain improved processing procedures, the problem is now worse than ever. On the three days following New Years day the situation at MIA was a disaster. Delays of up to four hours were recorded with average clearance times during some periods exceeding 2½ hours. The established goal for Miami is 45 minutes for peak periods; i.e., worst case.

The effects of this situation are many, serious and long lasting:

1. The international arrivals facility is designed to meter the flow of passengers from the aircraft to the federal inspection passenger processing stations in Immigration and Customs. As a consequence, only limited seating is necessary and, therefore, available.

   All halls and passageways were jammed. Access to rest rooms was restricted. Seating for the elderly or infirm was non-existent. People became ill. Police were required to control the crowds to prevent a riot. Safety and health were endangered. Passengers, some completing a lengthy and tiring trip of up to 10 hours, were forced to stand for well over two hours. For the first time in the history of Miami International Airport, passengers had to be held on aircraft as there was no space for them in the international arrivals area.

2. Connecting schedules are based on allowing 1½ hours between flights. Many passengers missed connections because of delays in processing. Many faced either added costs or great inconvenience waiting for another flight.

   Airlines, already in a highly tenuous financial plight, were forced to leave with empty seats while the passenger holding the ticket stood in a line for processing and, in many cases, pay for overnight accommodations.

3. One of the major strengths of Miami's air traffic system and the economies of our air carriers is the international hubbing and connecting traffic patterns which have been carefully developed during the decade of the 70's. This connecting traffic supports the routes which provide service for terminating passengers visiting South Florida and also the cargo lift crucial to our community

The current problem has been an inability to meet volume demands with the staffing available and procedures utilized by one of the four federal agencies involved in the federal inspection process at MIA; namely, Immigration, a part of the U.S. Justice Department responsible to the Attorney General. It should be pointed out that the staffing by Immigration during the worst portion of our recent crisis totaled 13 inspectors. This is equal to the number of inspectors available for the same period in 1970, thirteen years ago. Permanent staffing at the Airport by INS is not acceptable even for the off peak traffic periods. Miami absolutely cannot tolerate this situation.

- Permanent staffing assigned to the Airport by Immigration must be brought to or maintained at levels commensurate with traffic volume and levels at other major international gateways. This means that actual trained, available inspectors must meet these levels, not "approved positions", "inspectors on temporary assignment elsewhere", "at the training academy", etc.

- Regional/District management must recognize the peak traffic periods that repeat like clockwork year in and year out at the Airport and take steps to meet them well in advance. Personnel must be assigned temporarily part time to the Airport from other duties. Vacations must be scheduled taking traffic levels into account, abuses of sick and funeral leave must be dealt with as a disciplinary matter. Unusual conditions must be anticipated and contingency staffing plans and procedures developed in advance.

- A pool of part time inspectors must be budgeted, hired and trained. They should be qualified aviation/airport employees so that they are available for any emergency. We have offered that the employees of the Aviation Department be trained for such part time requirements. We have even offered to pay the cost of the part time emergency employees.

The alternate solution and the only one that will be cost effective and provide the framework and management system to prevent continuous recurrence of incredible inspection clearance delays, is to change the system of inspection by creating one federal inspection agency with one management team, one budget and one responsible agency. The four federal inspection agencies have shown little willingness in the past to pursue this idea of a single inspection agency for a major airport even though the concept is used at smaller airports and land border crossings, and Congress has not been willing to legislate the single agency concept despite strong recommendations for such an inspection system from the General Accounting Office, various Congressional Oversight Committees, the Office of Management and Budget, Air Transport Association, fact finding committees, and numerous business leaders of national repute who have only needed to observe the existing four separate agency federal inspection system for a few hours, or be briefed that such a monster exists, to recommend the one agency concept. We understand that one of the inspection agencies (Customs) is now in support of the one agency concept at airports and would strongly support a test of such a system. Why not Miami and why not now? The more complicated question of whether there should be a single agency for the entire country can be dealt with separately.

Miami has the best international facilities in the world. It has the greatest international market potential. It, unfortunately, has the worst reputation among international travelers. This makes the first item meaningless and will destroy the second.

Appendix I

INTERNATIONAL STANDARDS AND RECOMMENDED PRACTICES

FACILITATION

ANNEX 9

TO THE CONVENTION ON INTERNATIONAL CIVIL AVIATION

EIGHTH EDITION – JULY 1980

This edition incorporates all amendments adopted by the Council prior to 20 March 1980 and supersedes, on 15 October 1980, all previous editions of Annex 9.

INTERNATIONAL CIVIL AVIATION ORGANIZATION

3.8.5 **Recommended Practice.** — *Visas should in all cases include the following information given in the order shown:*

a) number of visa;

b) type of visa;

c) date of issue, showing day, month and year in that order;

d) date of expiry, showing day, month and year in that order;

e) number of entries permitted;

f) authorized duration of each stay.

3.8.6 **Recommended Practice.** — *Numerals 1, 2, 3, 4, 5, 6, 7, 8, 9, 0 and the Gregorian calendar (with months being spelled out in full) should be used in furnishing the information listed in 3.8.5.*

3.8.7 **Recommended Practice.** — *When the text of the visa is in a national language other than English, French or Spanish, one of these three languages should also be used.*

III. — ADDITIONAL DOCUMENTATION

3.9 **Recommended Practice.** — *Contracting States should not require either from temporary visitors travelling by air, or from operators on their behalf, any information in writing supplementary to or repeating that already presented in their identity documents.*

3.10 A Contracting State which continues to require written supplementary information from temporary visitors travelling by air, shall limit its requirements to the items and shall follow the format set forth in Appendix 3 — Embarkation/Disembarkation Card. Contracting States shall accept the Embarkation/Disembarkation Card when completed by temporary visitors and shall not require it to be completed or checked by the operator. Legible hand-written script shall be accepted on the card, except where the form specifies block lettering.

3.10.1 **Recommended Practice.** — *Contracting States which require the presentation of Embarkation/Disembarkation Cards should provide them to airline operators for distribution to passengers.*

IV. — PUBLIC HEALTH REQUIREMENTS

3.11 In cases where evidence of protection against yellow fever is required from persons travelling by air, Contracting States shall accept the International Certificate of Vaccination or Revaccination in the form set out by the World Health Organization in Appendix 2 of the International Health Regulations (1969).

3.12 **Recommended Practice.** — *Medical examination of persons arriving by air should normally be limited to those disembarking and coming within the incubation period of the disease concerned, as stated in the International Health Regulations (1969), from an area infected with one of the three quarantinable diseases (plague, cholera and yellow fever).*

V. — CLEARANCE PROCEDURES

3.13 Except in special circumstances, Contracting States shall not require that identity documents be collected from passengers or crew before they arrive at the passport control points.

3.13.1 After individual presentation by passengers and crew of the identity documents, the public officials concerned shall, except in special individual cases, hand back such documents immediately after examination, rather than withholding them for purposes of obtaining additional control.

3.14 In giving effect to paragraph 3.2, Contracting States shall ensure that examination by clearance control officials is performed as expeditiously as possible.

3.15 Each Contracting State shall make arrangements whereby the identity document of a temporary visitor need be inspected by only one official at times of entry and departure.

Note. — This provision is intended to ensure inspection of the identity document of a temporary visitor by only one official on behalf of both the Immigration and Police authorities. It is not intended to discourage Health and Customs officials from examining the identity document whenever this may facilitate health and customs clearance of the temporary visitor.

3.16 Contracting States shall accept an oral declaration of baggage from passengers and crew.

3.17 Contracting States shall normally accomplish inbound passenger baggage inspection on a sampling or selective basis.

3.17.1 **Recommended Practice.** — *Contracting States should adopt the dual-channel baggage clearance system at international airports where the volume of passenger traffic justifies its installation.*

Note. — See Appendix 5 — Dual-Channel System as recommended by the Customs Co-operation Council.

3.18 **Recommended Practice.** — *Contracting States should make arrangements whereby a passenger and his baggage, on an international flight making two or more stops within the territory of the same State, should not be required to be cleared through governmental formalities at more than one airport of the State concerned. Similarly, the State concerned should, insofar as is possible, make arrangements whereby these formalities are effected at the passenger's airport of destination on that flight, except in special circumstances determined by the authorities concerned.*

3.19 Contracting States shall facilitate the return of mishandled baggage to passengers or crew concerned and shall not hold operators liable for penalties, fines, customs duties and taxes, on the basis that the baggage was mishandled.

Note — The provision of storage facilities for unclaimed and mishandled baggage is covered in paragraph 6.31.2.

APPENDIX 5.—RECOMMENDATION OF THE CUSTOMS CO-OPERATION COUNCIL

For a Simplified Customs Control, Based on the Dual-Channel System, of Passengers Arriving by Air (8 June 1971)

"THE CUSTOMS CO-OPERATION COUNCIL,

Having Regard to Recommendation No. B-3 of the Seventh Session of the Facilitation Division of the International Civil Aviation Organization, as adopted by the Council of that Organization in December 1968, relating to the establishment at international airports of dual-channel systems for speedy clearance of inbound baggage;

Having Regard to Recommendation No. 11 adopted by the Second Intermediate Session of the European Civil Aviation Conference in July 1969 on the dual-channel or red/green system;

Desiring to contribute to the efforts to improve the flow of passenger traffic at international airports;

Considering that this aim can be achieved by introducing a simplified procedure, based on the dual-channel system, for the Customs control of passengers and their baggage;

Considering that such a system can be adopted without reducing the effectiveness of the control and that it enables Customs authorities to deal efficiently with an increasing number of passengers without a corresponding increase in the number of Customs staff;

Considering that harmonization of the features of this system, as between the various countries, is essential to its smooth operation;

Recommends that Members introduce, at their major international airports, in close co-operation with the airport operators and other agencies concerned, the dual-channel system outlined below for the clearance inwards of passengers and their baggage:

1) The system shall allow the passengers to choose between two types of channels:

   a) one (green channel) for passengers having with them no goods or only goods which can be admitted free of import duties and taxes and which are not subject to import prohibitions or restrictions; and

   b) the other (red channel) for other passengers.

2) Each channel shall be clearly and distinctively marked so that the choice between them can easily be understood by passengers. The basic distinctive marking shall be:

   a) for the channel referred to under 1) a), green, in the shape of a regular octagon, and the words "NOTHING TO DECLARE" ("RIEN A DECLARER");

   b) for the channel referred to under 1) b), red, in the shape of a square, and the words "GOODS TO DECLARE" ("MARCHANDISES A DECLARER").

   In addition, the channels should be identified by an inscription including the words "CUSTOMS" ("DOUANE").

3) The texts referred to in paragraph 2) shall be in English and/or French and in any other language or languages deemed useful for the airport concerned.

4) Passengers must be sufficiently well informed to choose between the channels. For this purpose it is important:

   a) that passengers be informed about the functioning of the system and about the descriptions and quantities of goods they may have with them when using the green channel. This may be done by means of posters or panels at the airport or by means of leaflets available to the public at the airport or distributed through tourist agencies, airlines and other interested bodies.

   b) that the route to the channels be clearly signposted.

5) The channels shall be located beyond the baggage delivery area so that passengers have all their baggage with them when choosing their channel. Moreover, the channels shall be so arranged that the passenger flow from that area to the exits from the airport is as direct as possible.

6) The distance between the baggage delivery area and the entrances to the channels shall be sufficient to allow passengers to decide which channel to choose and to move into that channel without causing congestion.

7) In the green channel passengers shall not be subject to any Customs formalities but the Customs may make spot checks; in the red channel passengers shall accomplish the formalities required by the Customs;

Points out that the dual-channel system is not necessarily incompatible with the application of other controls, for example, exchange control, unless the relevant regulations require full control of the passengers and their baggage;

Requests Members who accept this Recommendation to notify to the Secretary General:

   a) their acceptance and the date from which they will apply the Recommendation;

   b) the names of the airports where the dual-channel system is applied.

The Secretary General will transmit this information to the Customs Administrations of Members, to the Secretary General of the International Civil Aviation Organization (ICAO) and to the Director General of the International Air Transport Association (IATA)."

Appendix J

EXCERPTS FROM THE REPORT OF THE AIRPORT ACCESS TASK FORCE ON GROUNDSIDE CONGESTION

Federal Inspection Services

Federal Inspection Services (FIS) at U.S. airports are a significant cause of groundside congestion and delay for international air passengers and shippers. FIS congestion and delay detrimentally impact international passenger and cargo facilitation, disrupt the ability of arriving international air passengers to make planned domestic flight connections, significantly affect the movement of urgent shipments in international commerce and can affect the capacity of an airport to accommodate international traffic.

The Airport Access Task Force recommends that:

1. The Federal Government, through the Secretary of Transportation, ensure that studies funded through Federal planning grants to states, regional agencies, and local entities address airport ground access problems and solutions. Such studies include those efforts which lead to the development of state, regional, and local land use, transportation and airport master plans. Timely and effective review and coordination between the various Federal agencies (FHWA, FAA, UMTA, etc.) that provide Planning funds should be accomplished to ensure identification of potential problems involving groundside congestion;

2. Congress encourage and support the concept of coordinated and cooperative or joint funding of projects to develop airport ground access facilities by such agencies as the Federal Aviation Administration, Federal Highway Administration, Urban Mass Transportation Administration, state and local governments—since many access problems are not just airport problems;

3. Congress encourage and authorize the use of Federal funds through existing programs for projects to install ground transportation information systems in airport and off-airport terminals. Such information systems should provide up-to-date information about available ground transportation alternatives for the air traveler;

4. Congress support and encourage the development of off-airport terminal facilities by authorizing the use of Federal funds for the development of such facilities. Further, that the Federal Government support and encourage the development of these facilities by ensuring that, during the planning and project development of such facilities, state and local, as well as Federal authorities, are made aware of available funding and coordinate planning and development activities. Further, that airports and airlines recognize that these facilities can be a cost-effective means of relieving congestion at the terminal, approach roads, and parking lot of an airport. Finally, efforts should be focused on overcoming problems associated with remote baggage handling, ticketing, and other passenger services;

5. Services' procedure be modernized and simplified to maximize the efficient use of resources (e.g., dual channel "red/green door" and "one-step" procedures and automated systems such as the National Cargo Control System) and that cross-training of FIS employees be required;

6. Congress consider the consolidation and streamlining of the Federal Inspection Services so as to expedite passenger and cargo flow through ports as well as reduce operating costs;

7. Priority go to staffing that is commensurate with the activity of the port of entry so as to minimize delay; and

8. FIS costs continue to be recognized as costs to be borne by all taxpayers, since the Federal laws requiring inspection were enacted to protect the nation and all of its citizens.

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1983)

SCHEDULE 6. - METALS AND METAL PRODUCTS
Part 2. - Metals, Their Alloys, and Their Basic Shapes and Forms

GSP	Item	Stat. Suffix	Articles	Unit of Quantity	Rates of Duty 1-a: 1	Rates of Duty 1-a: LDDC	Rates of Duty 1-b: 1	Rates of Duty 1-b: LDDC	2
			Unwrought copper:						
A	612.02		Cement copper and copper precipitates........	....	1.7% ad val. on the value of the copper content		1¢ per lb. on copper content (see headnote 6)		6% ad val.
		20	Copper content........	Lb.					
		40	Gold content........	Oz. troy					
		60	Silver content........	Oz. troy					
A	612.03		Black copper, blister copper, and anode copper........	....	1.2% ad val. on the value of the copper content	1% ad val. on the value of the copper content	0.85¢ per lb. on 99.6% of the copper content	0.7¢ per lb. on 99.6% of the copper content	6% ad val.
		30	Black copper, blister copper, and anode copper........	Lb. v					
			dutiable copper content..	Lb.					
		60	Gold content........	Oz. troy					
		80	Silver content........	Oz. troy					
A	612.05	00	Nickel silver........	Lb.....v	3.7% ad val.	4.6% ad val.	0.8¢ per lb. on copper content + 4.3% ad val.	0.6¢ per lb. on copper content + 3.3% ad val.	28% ad val.
			copper content..	Lb.					
A*	612.06		Other........	....	1% ad val.		0.75¢ per lb. on copper content		6% ad val.
			Alloyed:						
		10	Beryllium copper........	Lb. v					
			copper content..	Lb.					
		30	Other........	Lb. v					
			copper content..	Lb.					
		40	Other........	Lb.					
			Copper waste and scrap:						
A	612.08	00	Nickel silver........	Lb.....v	4.2% ad val.	2.6% ad val.	0.7¢ per lb. on 99.6% of the copper content + 3.3% ad val.	0.4¢ per lb. on 99.6% of the copper content + 2% ad val.	28% ad val.
			copper content..	Lb.					
A	612.10		Other........	....	0.8% ad val.	Free	0.7¢ per lb. on 99.6% of the copper content	0.4¢ per lb. on 99.6% of the copper content	6% ad val.
		20	Unalloyed.......copper content..	Lb.					
			Alloyed:						
		40	Brass........	Lb.					
			copper content..	Lb. v					
		60	Other........	Lb.					
			copper content..	Lb. v					
	612.11		If the product of Cuba (except alloy waste and scrap)........	....	Free (s)		Free (s)		

(s) = Suspended. See general headnote 3(b).

Note: For explanation of the symbol "A" or "A*" in the column entitled "GSP", see general headnote 3(c).

G S P	Item	Stat. Suf-fix	Articles	Units of Quantity	Rates of Duty		
					1	LDDC	2
			Clock and watch glasses and other protective glasses, including glasses for noncorrective spectacles, all the foregoing, with one or both surfaces curved but not optically worked (except blanks for corrective spectacle lenses):				
			Watch glasses:				
A	547.11	00	Round	Doz.	6.7% ad val.	4.9% ad val.	60% ad val.
A	547.13	00	Other	Doz.	16.8% ad val.	9.4% ad val.	60% ad val.
A	547.15	00	Other	X	8.8% ad val.	5% ad val.	60% ad val.
	547.16	00	If Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	X	Free		
A	547.21	00	Gauge glasses, whether tubular or nontubular	X	7.9% ad val.	5.8% ad val.	60% ad val.
			Glass envelopes (including bulbs and tubes), without fittings, designed for electric lamps, vacuum tubes or other electrical devices:				
A	547.31	00	Bulbs for incandescent lamps	No.	4.4% ad val.	3.7% ad val.	20% ad val.
A	547.37		Other		9.6% ad val.	6.6% ad val.	55% ad val.
		20	Glass envelopes for cathode-ray tubes	No.			
		40	Other	No.			
			Glass electric insulators with or without fittings:				
A	547.41	00	With metal fittings	No.	6.2% ad val.	4.9% ad val.	35% ad val.
A	547.43	00	Without metal fittings	No.	7.9% ad val.	5.8% ad val.	50% ad val.
A	547.51	00	Glass ampoules	Gross	12.5¢ per gross		50¢ per gross
			Pharmaceutical, hygienic, and laboratory glassware, whether or not graduated or calibrated:				
A	547.53	00	Containing over 95 percent silica by weight	X	7.9% ad val.	5.8% ad val.	50% ad val.
A	547.55		Other		14.7% ad val.	8.4% ad val.	85% ad val.
		10	Microscope slides and micro cover glasses	X			
		20	Other	X			
			Subpart D. - Glass Articles Not Specially Provided For				
			Articles not specially provided for, of glass:				
			Tubes and tubing with ends processed:				
A	548.01	00	Containing over 95 percent silica by weight	X	5.9% ad val.	4.7% ad val.	40% ad val.
A	548.03	00	Other	X	11.8% ad val.	7.5% ad val.	60% ad val.
A	548.05	00	Other	X	9.6% ad val.	6.6% ad val.	55% ad val.

Note: For explanation of the symbol "A" or "A*" in the column entitled "GSP", see general headnote 3(c).

Appendix L

THE FEDERAL INSPECTION PROCESS

	Title	Author	Date
1	Interagency Report	BOB	May 1968
2	System Concept for Drug Interception —U.S. Mexican Border	Mitre	October 1972
3	Heroin Being Smuggled Into New York City Successfully	GAO	December 7, 1972
4	A Single Agency Needed to Manage Port-of-Entry Inspectors—Particularly at U.S. Airports	GAO	May 30, 1973
5	More Needs to be Done to Reduce the Number of Adverse Impact of Illegal Aliens in the United States	GAO	July 31, 1973
6	Need for Improvements in Management Activities of the Immigration and Naturalization Service	GAO	August 14, 1973
7	U.S. Customs Service-A Summary Strategy for Border Law Enforcement Operations	Customs	February 6, 1974
8	A Secure Border; An Analysis of Issues Affecting the U.S. Department of Justice	Justice	March 4, 1974
9	Study of Law Enforcement Along Southwest Land Border	OMB	June 5, 1974
10	Law Enforcement on the Southwest Border (Problems of Coordinating Between Immigration and Naturalization Service and Customs Service)	Committee on Government Operations	December 14, 1974
11	Better Controls Needed to Prevent Foreign Students from Violating the Conditions of Their Entry and Stay While in the United States	GAO	February 4, 1975
12	Premium Pay for Federal Inspectors at U.S. Ports-of-Entry	GAO	February 14, 1975
13	Administration of the Alien Labor Certification Program Should be Strengthened	GAO	May 16, 1975
14	Need to Reduce Public Expenditures for Newly Arrived Immigrants and Correct Inequity in Current Immigration Law	GAO	July 15, 1975
15	Aliens Are Illegally Entering the U.S. Mainland Through Puerto Rico and the U.S. Virgin Islands	GAO	September 8, 1975
16	Federal Drug Enforcement Strong Guidance Needed	GAO	December 18, 1975
17	Smugglers, Illicit Documents, and Schemes are Undermining U.S. Controls over Immigration	GAO	August 30, 1976

	Title	Author	Date
18	Illegal Alien Study, Part 1: Fraudulent Entrants Study	INS	September 1976
19	Immigration-Needed to Reassess U.S. Policy	GAO	October 19, 1976
20	Preliminary Report	Domestic Council Comm.	December 1976
21	The Immigration and Naturalization Service	Justice	May 1977
22	If Defense and Civil Agencies Work More Closely Together, More Efficient Search/ Rescue and Coastal Law Enforcement Could Follow	GAO	May 26, 1977
23	Illegal Entry at United States—Mexico Border-Multiagency Enforcement Efforts have not been Effective in Stemming the Flow of Drugs and People	GAO	September 1977
24	The Illegal Alien Assault: The U.S. Retreats From the Border	Crim. Law Review V.14,#4	September 1977
25	Border Management and Interdiction, An Interagency Review	Drug Abuse	September 1977
26	Customs' Cargo Processing-Fewer But More Intensive Inspections Are in Order	GAO	September 1978
27	More Can be Done to Speed the Entry of International Travelers	GAO	1979
28	One-Step Inspection System Speeds the Entry of International Travelers	GAO	1982

Senator ABDNOR. Go ahead.

Mr. LANDRY. The analysis reviews the Federal inspection system, current regulatory responsibilities, previous reports and studies on inspection agency management, and explores possible interim relief measures.

The ATA analysis also suggests a number of options and alternatives with respect to Federal inspection management at airports and notes how some of these options and alternatives might be accomplished.

Mr. Chairman, in our prepared statement, we include an excerpt from the fiscal year 1984 budget message setting forth several directives to keep pace with the growth in the air transportation of people and goods into this country.

The proposed $21 million cut in allocation for Customs inspectors is inconsistent with those directives, and unless a portion of the recommended cut can be restored, or other reallocation of resources can be arranged, severe congestion and delays in the processing of international air commerce will continue to result.

In fiscal year 1982, Customs collected $9.9 billion, an increase of 8.5 percent over fiscal year 1981.

This represents a return of almost $19 for every appropriated dollar spent in carrying out Customs requirements and responsibilities.

In view of this remarkable revenue generating record, we find it difficult to reconcile proposals to reduce Customs manpower by some 820 inspectors, which in turn will adversely affect Customs revenue collections.

In conclusion, Mr. Chairman, we urge the subcommittee to assure sufficient appropriations for adequate Customs inspector personnel at our gateway airports. To require Customs to establish initiatives to further simplify or combine the inspection process and otherwise provide facilitation and leadership in international commerce, leadership which this country enjoyed in the past for many years.

In recent months, the Customs Service has been introducing streamlined procedures at some of our critical gateway airports. That is an encouraging sign, and we hope that this subcommittee will see to it that an inadequate appropriation does not nip that modernization process in the bud.

Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator ABDNOR. WE will place your statement in the record at this point.

[The statement follows:]

STATEMENT OF JAMES E. LANDRY

My name is James E. Landry. I am Senior Vice President and General Counsel of the Air Transport Association of America, which represents the scheduled airlines of the United States. Among our members are 17 U.S.-flag airlines that provide regularly scheduled air service between the United States and over 70 foreign countries. I am accompanied by James R. Gorson, the Association's Director of Facilitation, who is responsible for coordinating the airline industry's program to encourage the development of governmental border-crossing practices and procedures, better adapted to, and in closer harmony with, the high technology air transport system and the needs of millions of travelers and shippers.

We appreciate the opportunity to appear before the Subcommittee to discuss the United States' Customs service inspection requirements as they affect international air commerce. We will comment on the level of resources necessary to meet those requirements under current inspection practices without causing intolerable delays and public confusion, and we will also comment on alternatives available to minimize resource demands and growing inspection workload.

Our primary interest is in seeking to assure that the responsibilities of the Customs service, and the means by which they are carried out, do not nullify or erode the benefits of air transportation -- benefits which are wholly dependent on the speed, efficiency and reliability of airline service. Our concern is that current and future appropriations for Customs staffing at our international airports will continue to cause serious air service interruptions, and extensive public criticisms, unless resource adjustments are made, and ways are found to reduce inspection workload through simplification and modernization of practices and procedures and by other means.

This concern is intensified by the fact that current inspector staffing is well below the level needed today; that extensive inspection delays and public inconvenience have occurred; that long-standing inspection practices have not been changed significantly; that current budget proposals ask for a substantial reduction in the number of Customs inspectors; and that pending considerations hold little promise for the resource adjustments and procedural changes which are required.

Customs Responsibilities and the Budget

The current responsibilities of the Customs Service were established by the Tariff Act of 1930. Before discussing Customs staffing requirements in terms of currently applicable inspection practices, it may be well to review briefly the principles underlying that statute and related federal budget principles.

The Tariff Act of 1930 represented a comprehensive effort to develop a revised code to modernize and codify various Customs policies adopted over the history of our country, and to establish long-term principles covering the importation of goods. In the process of doing this, the legislative language became quite precise in specifying basic requirements applicable to the collection and protection of the revenue, the prevention of fraud and smuggling, and the processing and regulation of persons, carriers, freight and mail into and out of the United States. These basic inspection requirements affect the process followed at airports of entry today. As in the case of earlier Customs policy, the 1930 law was enacted to protect the national security in the broad public interest.

The 1930 Tariff Act provided no special direct or indirect benefits to the airlines, or to airline customers as a class. Nor was the law intended to promote or support air transportation, or to make it a better, or more salable product. Putting public policy objectives aside, the requirements of the law actually hinder the provision of efficient airline service and the selling of air travel to this country.

The airlines fully agree that determined efforts are necessary to reduce the growth of federal spending in order to spur economic recovery and expansion. The airlines also agree that all parts of the economy must avoid requesting special treatment. We do not seek special treatment. We do not consider an effort to assure the availability of resources adequate to administer efficiently a law enacted for the public good to be inconsistent with that essential national economic objective.

The challenge of accomplishing that objective is illustrated by an examination of the scale of activities involved. Twenty-six million air travelers entered the United States on more than 200,000 scheduled and charter aircraft in 1982. In the same year, international cargo, with an estimated value of $31 billion arrived by air at United States gateway airports. Federal projections indicate that substantial increases, both passengers and cargo, can be anticipated in the years ahead. An increasing proportion of international cargo shipments is comprised of time-sensitive small-package and document express shipments, for which efficient Customs clearance procedures are particularly important.

In the light of this overall objective, and the principles underlying the Tariff Act and its administration, it is difficult to understand the Customs inspector staffing deficiency we now face for fiscal year 1984.

Customs Inspector Staffing

Customs inspector staffing has not kept pace with the growth of air commerce and continues to be seriously inadequate at airports where international air travelers and air freight enter the United States. For example, as detailed in the attached 30 March 1983 Flying Tiger Line letter, Customs' Service Import Specialists positions at Charlotte, North Carolina, will be transferred to other ports or eliminated. The effect will be a reduction of Customs staff at Charlotte of 33%. There are also severe bottlenecks in processing international travelers through Customs formalities at many U.S. airports of entry and at the preclearance airports in Canada, Bermuda and the Bahamas. Lengthy delays continue to be experienced at many airports, including, for example, Miami, Seattle, New York (Kennedy), and Honolulu.

This situation must not be allowed to continue. It is not a good way of conducting the business of the government. It is counterproductive to the effort to greet visitors from abroad and welcome home returning United States citizens. It causes public inconvenience and delay, and generates widespread public indignation. It makes the business of international air transportation less productive and efficient, and increases its cost to the public.

As reflected in the attachment to this statement, 236 additional Customs inspectors are needed now -- today -- at U.S. international and preclearance airports to process international air commerce on a reasonably efficient basis under current inspection practices. This estimate is based on airline industry analyses of inspection workload at the various airports, and on consultation with the airport authorities. It is, in our opinion, a conservative estimate, and one that cannot be reduced significantly without substantially altering Customs inspection requirements. The increased inspector staffing needs can be provided by direct appropriations or by a mandated reallocation of resources from within the Customs service, or by some combination of the two approaches.

The Customs inspector staffing dilemma is brought into sharp focus by current federal employment resource planning and budget proposals. Despite increased international air travel, the already under-manned Customs inspector staff assigned to airports of entry is to be reduced in fiscal year 1984. The fiscal year

1984 Customs budget proposals include expenditure reductions which will lower inspector levels by some 820 positions, and this is turn will reduce airport inspector levels by roughtly 10%. Added to the disruption and delay caused by the present shortage of airport inspectors, these reductions will result in additional airport inspection delays, and may well force air service interruptions. We understand that the Military Airlift Command is considering termination of Customs preclearance of military commercial charters at overseas airforce bases. Over 500,000 military personnel and dependents are now precleared by Customs and Customs military inspectors overseas. If this action goes forward, these service personnel will now be cleared in the United States in competition with Customs inspection of civilian traffic, which will further impact adversely on Customs processing of all international air travelers

Alternatives to Minimize Growing Resource Demands

While significant Customs inspector workload reductions may not be possible in the absence of major changes in basic Customs policy, opportunities exist for inspection simplification and modernization by administrative action, and by changes in the Tariff Act. These opportunities include:

1) Initiate action to implement a one-stop inspection procedure for passengers at all U.S. gateway and preclearance airports;

2) Implementation of the red door/green door dual channel passenger and baggage inspection procedure -- or modification of it -- whereby the traveler determines whether or not he must go through Customs formalities, to other airports of entry in the United States.

3) Extension of preclearance -- the inspection of passengers prior to departure in a foreign country -- to more locations abroad, such as at Mexico City;

4) Simplification of the processing of U.S. international air freight through the introduction of an automated control system which interfaces with airline computers in place around the country; and

5) Consolidation of the several inspection functions required for the entry of travelers into this country.

With respect to the last item, at a joint government/airline facilitation conference in San Juan, Puerto Rico, last November, ATA was requested to develop an analysis on how inspection agency efficiencies could be realized. The ATA analysis was completed the week before last and we will be glad to supply a copy for the record. The analysis reviews the federal inspection system, current regulatory responsibilities, previous reports and studies on inspection agency management, and explores possible interim relief measures. The ATA analysis also suggests a number of options and alternatives with respect to federal inspection management at airports, and notes how some of these options and alternatives might be accomplished.

Peaking of International Flight Arrivals

The peaking of international flight arrivals has received considerable attention by this Committee and the Congress. While individual airlines acting individually can make some adjustments in their international flight arrivals, we believe the best long-term solution is to facilitate the clearance procedures of Customs and the other U.S. inspectional agencies. The peaking of airline flight arrivals is expanded upon in the attachment to our statement, which points out that of all of the aspects of modern airline operation, none is more complex than scheduling.

FY 1984 Customs Budget Directives

We note that the fiscal year 1984 budget message contains the following directives:

> In enforcing the provisions of the Tariff Act of 1930, as amended, the inspection and control activity must: (1) accommodate the growth of persons and cargo entering this country; (2) open new ports of entry and expand service at existing ports to meet the needs of the traveling and importing public; (3) improve selectivity of Customs inspectional enforcement programs through improved techniques and equipment; and (4) achieve maximum utilization of Customs resources with minimum disruption of international trade and travel.

The proposed $21 million cut in allocation for Customs inspectors is inconsistent with these directives, and unless a portion of the recommended cut can be restored, or other reallocation resources can be arranged, severe congestion and delays in the processing of international air commerce will continue to result.

In fiscal year 1982, Customs collected $9.9 billion, an increase of 8.5% over fiscal year 1981. This represents a return of almost $19 for every appropriated dollar spent in carrying out Customs requirements and responsibilities. In view of this remarkable revenue generating record, we find it difficult to reconcile proposals to reduce Customs manpower by some 820 inspectors, which, in turn, will adversely affect Customs revenue collections.

Conclusion

In conclusion, we urge the subcommittee to assure sufficient appropriations for adequate Customs inspector personnel at our gateway airports, to require Customs to establish initiatives to further simplify or combine the inspection process and otherwise provide facilitation leadership in international commerce -- leadership which this country enjoyed in the past for many years.

THE PEAKING OF INTERNATIONAL FLIGHT ARRIVALS

THE BEST LONG-TERM SOLUTION

Many of the nation's airports—cities in themselves, pumping millions and sometimes billions of dollars into local economies—tend to be busier at some hours than at others. This "peaking" of flight arrivals and departures, as it is called, causes simultaneous peaking at various centers of airport activity—in baggage claim areas, in demand for surface transportation and, with international flights, in the volume of passengers being processed by Customs and other U.S. inspectional agencies.

Over the years, this has raised a question. Why don't the airlines respond to peaking with the seemingly simple approach of merely changing the schedules?

Like so many seemingly simple solutions, changing an airline schedule is not as simple as it seems.

What follows is a brief explanation of the many factors going into development of airline schedules, convenient for passengers and shippers and economically sound for airlines. Then, a few suggestions are presented to overcome peaking by making the processing of arriving international passengers more productive.

Making Airline Schedules

Of all of the aspects of modern airline operation, none is more complex than scheduling. All of the airline's productive resources are involved, including aircraft, crews, ground personnel and station facilities. Successful scheduling requires that they all be combined effectively.

The resources are expensive and getting more so. Aircraft offer a striking case in point. The airlines invested $17 billion in new aircraft in the 1970's, and the current fleet represents an investment of $25 billion. Effective scheduling must put these aircraft to productive use—not only because of the enormous cost involved, but also because airline seats cannot be stockpiled. The airline product must be consumed at flight time. If it is not, the revenue is lost forever.

Many Disciplines Involved

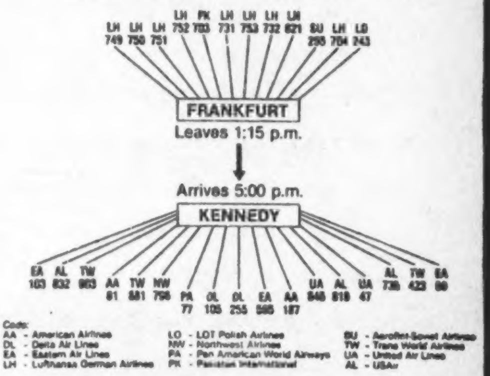
Developing a productive airline schedule brings together many disciplines—from marketing to maintenance—and this cannot be done within the isolation of a single route segment. Each schedule change must take into account:

- Flight connections
- Crew scheduling
- Aircraft utilization
- Productive use of ground personnel and station facilities
- Aircraft maintenance
- Positioning of aircraft to originate other flights
- Curfews and other restraints on using airports at night
- Availability of Customs and Immigration inspectors

The Interrelationships

Flight connections, for example, require that schedules be tightly interwoven. Nearly every flight relates to hundreds of other flights, many of them connecting. The flight departure time from city A determines when the aircraft will be available at city B for assignment to another flight to city C. If the flight is not available at city B in time to make connections, the flight will not be economically productive.

Flight Schedules Are Tightly Interwoven


LH 749
LH 750
LH 751
LH 752
PK 703
LH 731
LH 753
LH 732
LH 621
SU 255
LH 704
LO 243
FRANKFURT
Leaves 1:15 p.m.
Arrives 5:00 p.m.
KENNEDY
EA 103
AL 832
TW 903
AA 81
TW 881
NW 798
PA 77
DL 105
DL 255
EA 585
AA 187
UA 846
AL 818
UA 47
AL 736
TW 423
EA 90
Code:
AA - American Airlines
DL - Delta Air Lines
EA - Eastern Air Lines
LH - Lufthansa German Airlines
LO - LOT Polish Airlines
NW - Northwest Airlines
PA - Pan American World Airways
PK - Pakistan International
SU - Aeroflot-Soviet Airlines
TW - Trans World Airlines
UA - United Air Lines
AL - USAir

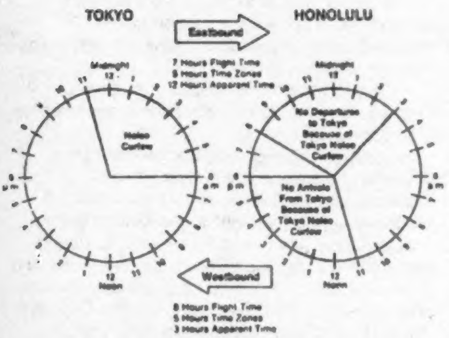
Aircraft schedules form the basis for crew schedules. Crew schedules, in turn, must conform with strict requirements on rest and layover times prescribed by the Federal Aviation Administration for U.S. carriers and by governments of other nations for their own carriers.

Good aircraft utilization is important in controlling hourly operating costs. If aircraft utilization goes down—from 10 hours a day to eight hours, for example—the per hour cost of a wide range of items, from depreciation to insurance and administration, all rise significantly.

Curfews have an impact far beyond the airport imposing them. The curfew at London affects the time a plane arrives at Boston. The curfew at Tokyo affects the time a flight arrives at Honolulu.

Limited resources often preclude the availability of Customs and Immigration inspectors to clear arriving international flights.

Effect of Curfews on Schedules


TOKYO
HONOLULU
Eastbound
7 Hours Flight Time
5 Hours Time Zones
12 Hours Apparent Time
Midnight
12
Noise Curfew
No Departures to Tokyo Because of Tokyo Noise Curfew
No Arrivals From Tokyo Because of Tokyo Noise Curfew
6 p.m.
6 a.m.
12 Noon
Westbound
8 Hours Flight Time
5 Hours Time Zones
3 Hours Apparent Time

International Obligations

In international air transportation, the U.S. Government has certain obligations arising from bilateral agreements entered into with governments of other nations. The provisions of such agreements may not set forth specifically the right of absolute scheduling freedom. But it is implicit that airlines of each of the nations that are parties to the agreements are free to conduct operations in a way that will best serve passengers and shippers, while making the most productive and economic use of available equipment.

In short, there are many factors that must be weighed before a schedule change is made. As important as all of them are, there is another of overriding importance—customer convenience.

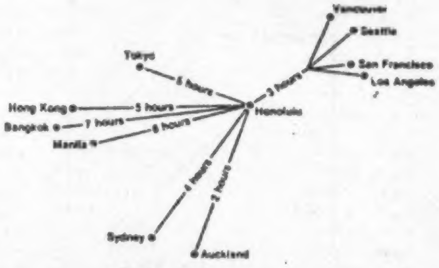
Customer Convenience

If an airline is to succeed financially, scheduling must conform to customer convenience. In the final analysis, the needs of the customer, that is, the market, must determine hours and frequency of airline schedules.

Schedule planners try to determine these customer desires. Then the challenge is to match them as closely as possible with workable schedules for operating the company's aircraft systemwide. The aim of the scheduling process is to fly a schedule that will satisfy the needs of enough customers to earn the revenue to pay for the schedule.

This is true of virtually all scheduling. But in the case of transcontinental flights and many international flights, the process is further complicated by the additonal factor of time zone changes.

Time Zone Difference
Between Various Cites and Honolulu


Vancouver
Seattle
San Francisco
Los Angeles
3 hours
Tokyo
5 hours
Honolulu
Hong Kong
5 hours
Bangkok
7 hours
Manila
6 hours
4 hours
2 hours
Sydney
Auckland

The Time Zone Factor

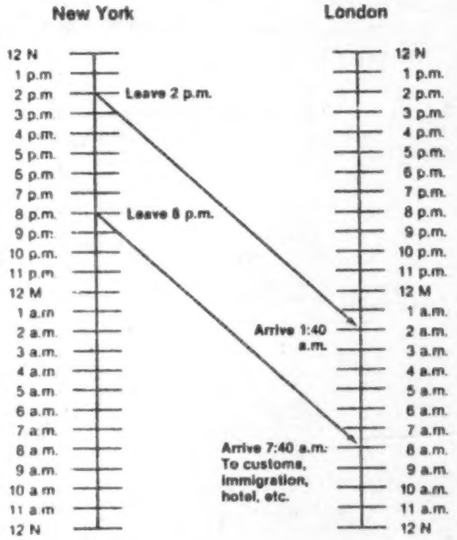
Five hours are lost on a flight from New York to London because of time zone changes. Hence, many periods during the day are not practical for transatlantic departures from the U.S. East Coast because they would result in inconvenient arrival times in Europe.

Sending the flight off from New York at 2 o'clock in the afternoon, for example, would mean an arrival time of about 1:40 the next morning in London—hardly an hour at which the traveler wants to cope with passport control, customs, currency exchange, transportation into the city and hotel check-in.

Consequently, most transatlantic flights from the U.S. East Coast to Europe leave in the evening, between 7 p.m. and 11 p.m., for arrival in European cities at times coinciding with the opening of business the next morning. Westbound transatlantic flights, taking advantage of the time zone factor, leave European cities at mid-morning or slightly later for arrival in the U.S. from mid-to-late afternoon.

Airlines do not peak international service deliberately. When peaking does occur, it is usually due to geography, time zones and other factors beyond the airlines' control.

Time Zones Are a Factor In Scheduling



The air transport industry, spending many millions of dollars each year to promote international air travel, has every reason to avoid delays in the clearance of passengers returning to the United States. But there is a better, more permanent way of avoiding clearance delays than through responding with schedule changes that cause disruption elsewhere in the air transport system.

Facilitating Customs Clearance

The better way is to make the clearance process more productive, hence quicker for most returning passengers. Here are some ways in which this can be done:

- Through the more adequate staffing of Customs and the other inspectional agencies at U.S. gateways.
- Through the expansion of preclearance, whereby the traveler goes through U.S. inspectional procedures at an airport abroad before boarding his flight to the United States. Preclearance has worked well for U.S. bound passengers at cities in Canada, in Bermuda and in the Bahamas. It should be expanded to such places as Shannon, Frankfurt, Mexico City and Tokyo, and to other cities from which large numbers of international travelers board flights to the U.S.
- The more widespread use of the accelerated specialized inspection system through which an officer of Customs is also trained to perform the inspectional duties of an immigration officer, and vice versa.
- Adoption of the red/green dual channel system used in many other countries, and through other random selection and Customs sampling techniques.

To Recap

The convenience of air passengers and shippers is the most important factor in developing airline schedules. To the extent that this results in a peaking of arrivals and departures of international flights, the best long-term solution is to facilitate the clearance procedures of Customs and the other U.S. inspectional agencies.

March 30, 1983

Honorable William von Raab
Commissioner U.S. Customs' Service
1301 Constitution Avenue N.W.
Washington, D.C. 20229

Dear Commissioner von Raab:

It has come to my attention that certain Customs' Service Import Specialist positions at Charlotte, N.C. will be transferred to other ports or eliminated. The effect will be a reduction of Customs' staff at Charlotte of 33 percent. A reduction of this magnitude will cause serious problems for North Carolina importers, the economic development of the region, the development of the Charlotte Foreign Trade Zone and the carriers providing international service at Charlotte.

I am aware of the budgetary constraints and overtime limits being placed on your organization by Congress and recognize that staffing policy decisions must be made in ways that optimize the efficiency of the Customs' Service. However, I would like you to be aware of the impact the proposed reductions will have on the economy of the Charlotte area and on Flying Tigers' service.

The relocation of the Import Specialists will cause clearance delays for all entries an inspector questions on matters relating to classification, appraisement, quota control, patent or copyright protection. The movement of documents and/ or merchandise to another port 212 miles away for examination by the Import Specialists and its return will delay clearance and delivery to the importer of these entries by a minimum of two days.

Furthermore, this will cause physical control, loss/damage liability responsibilities and customer relation problems for the carriers, with no off-setting benefit to either the importing public or the carriers.

Charlotte is centrally located in an area with a high concentration of U.S. firms doing business overseas and the Charlotte airport serves the import and export needs of these firms. The textile industry, for example, is a major employer in the area and is dependent upon the speed of airfreight for movement of machinery, parts, supplies and finished products.

Last year, the Charlotte Customs district levied nearly $24 million in import duties. This represents over $1.7 million per Customs employee, more than double the average for the Customs Service as a whole. The imports of foreign trade were estimated to have a value of $368 million, which represents a 20% increase over 1981. Nearly one third of the 968 manufacturing firms located in and around Charlotte are involved in foreign trade. The contribution from foreign trade to the local economy has been estimated to be growing at a rate of 20% per year, which far exceeds the growth rate of the local economy.

This rate of growth is expected to continue and consequently cutting staff in the face of increasing volume will certainly effect clearance times and service to the public. The local economy is becoming increasingly dependent upon foreign trade and the number of jobs directly related to it is estimated to be in excess of 16,000.

Flying Tigers has been instrumental in the development of Charlotte as an international gateway. Our services have been tailored to meet the needs of importers and exporters in the Charlotte area. In addition to our five DC-8 freighter weekday flights, which carry Asian import and export traffic, we recently added our second weekend B747 freighter service direct from Europe. These two weekend flights are tailored to meet the needs of local importers for Monday morning clearance and delivery of goods produced in Europe the week before. Further, they are carrying an increasing amount of in-bond traffic for other U.S. points as shippers become aware of the advantages of by-passing the congestion of other East Coast gateways.

We fully expect the use of Charlotte as an international gateway to expand further. As early as the end of this month a major European forwarder will shift significant volumes of freight to Charlotte for clearance or for onward carriage in-bond. When this forwarder demonstrates the service advantage of using Charlotte as a gateway, we are sure others will follow of competitive necessity. Thus, the need for Customs' Personnel at Charlotte will increase. Without sufficient personnel, this growth in volume and its stimulative effect on the local economy, will not occur. Absent the growth, it is doubtful Flying Tigers will be able to sustain the level of service currently provided.

The great value of airfreight is speed, but congestion at other ports has slowed the clearance of airfreight. For this reason, Flying Tigers adopted a strategy of developing alternative gateways for international traffic that can by-pass the congestion of the more traditional gateways and, thus, restore the speed value of airfreight to an American carrier.

To accomplish this goal, we have committed to pay Customs for overtime service in order to maintain the highest level of service for our customers. For example, our current operation plans include paying $200 per week for Customs overtime in Charlotte, which will amount to over $10,000 for 1983.

With the above points in mind, I request that you reconsider the personnel reassignment and position elimination actions that have been taken, and take steps necessary to assure that the port of Charlotte receives sufficient Customs staffing to permit its continued growth as an alternate gateway.

If the reassignment must be carried out, I request that you take steps to insure (1) clearance of goods referred to the Import Specialists will not be dealyed; (2) the carriers will not be required to assume additional paperwork processing or physical control activities; (3) Customs will assume all liability for any goods removed from carriers facilities for Customs activities; and (4) Customs will provide a telephone number and name contact that carriers can give to customers who inquire about the status of shipments that are in Customs' possession.

I am sure you will agree our basic interests are the same--to provide the best possible service to the foreign trade community and thereby make the United States a more favorable trading partner. The development of new gateways will relieve some of the pressure on Customs at the more congested, traditional gateways and provide a much needed benefit to American flag carriers that serve such alternate gateways.

I look forward to your response.

Sincerely,

John E Flynn

John E. Flynn
Executive Vice President

ADDITIONAL CUSTOMS STAFFING REQUIREMENTS

FISCAL YEAR 1984

U.S. AIRPORTS-OF-ENTRY

Airport	Additional Inspectors
Agana, Guam	1
Anchorage	2
Atlanta	1
Baltimore	2
Boston	7
Chicago	7
Cleveland	1
Dallas	3
Denver	1
Detroit	1
Honolulu	2
Houston	12
Los Angeles	41
Miami	35
Minneapolis	1
New Orleans	10
New York (JFK)	24
Philadelphia	2
Pittsburgh	1
Portland, OR	1
San Antonio	2
San Diego	1
San Francisco	9
San Juan	18
Seattle	11
Tampa	1
Tucson	1
Washington, Dulles	3
Subtotal	208

PRECLEARANCE AIRPORTS

Airport	Additional Inspectors
Bermuda	2
Calgary	7
Edmonton	5
Freeport	2
Montreal	2
Nassau	2
St. Croix	1
St Thomas, V.I.	2
Toronto	3
Vancouver	1
Winnipeg	2
	28

TOTAL 236

Senator ABDNOR. When you first make reference to the ATA report, which is the outgrowth of your study we glanced at it, and staff has gone through it and it's very fine. I am going to ask unanimous consent that it be made a part of the record.

Mr. LANDRY. Thank you very much, Mr. Chairman.

Senator ABDNOR. You made mention of what another fiscal year might look like if we followed through with the proposed budget.

Have you had any time to analyze what would happen in 1984 if this proposal was enacted?

Mr. LANDRY. It's hard to quantify, Mr. Chairman. We can foresee very serious interruptions in air service. As you know, 1984, among other things, will be the Olympic year in Los Angeles. We have other unfortunate signs of an increased workload for an already over-burdened staff, such as the potential termination of preclearance of the military, which could result in some 540,000 additional thousand passengers being cleared at Los Angeles and St. Louis and some other airports.

All we see is an increasing amount of congestion, interruption, delay and aggravation for the passengers and for the goods flowing into the country.

Senator ABDNOR. So that will present problems to us in several ways. It's nice to have them, but we have run into the Olympics in this committee on several of our agencies.

You stress problems that could be eased? What are we talking about in extra numbers if we attack the problems as proposed? Are we talking about a lot more people over and above what we've got today without the cuts?

Mr. LANDRY. No, in our prepared statement, Mr. Chairman, we suggest that after discussing this with our carriers nationwide that a grand total of some 236 additional inspectors, we think, are required to meet those minimum needs.

Now, that's an absolute minimum, Mr. Chairman, because as was indicated by the previous witness, I understand that this morning on the House side, they perceived a need, not only to restore the 420 inspectors that we speak of in our statement, but others as well, an additional 450.

That means not only the 820 inspectors that are contemplated to be cut, but an additional 450.

So, I think that our analysis nationwide of what is required talks about an additional 236 above and beyond what was already there, and that's a very conservative estimate.

Senator ABDNOR. Well, thank you. Some of the improvements that you speak of are now in the pilot program stage. I think we're trying some of them. Have we progressed far enough to see any success in those programs?

Mr. LANDRY. We've been very pleased, certainly, with the operation of the red door-green door process at the Kennedy International Arrivals Building, and at Pan Am's and TWA's terminals there, and with the assist program in Los Angeles, the assist procedure that's proving to be very, very effective, efficient. Perhaps Mr. Gorson would like to add a few words about that.

Mr. GORSON. Just to mention that Houston also had red door-green door, and since implemented, the seizures have gone up with this modernized procedure. Chicago, O'Hare Airport, has red door-green door now, as does Miami, and we would like to take this opportunity to commend Customs. Sometimes we are critical of this agency for implementing these new modernized procedures with increased enforcement.

Senator ABDNOR. Thank you.

Well, I think that's all the questions we have now. As you know, Monday is going to be a big day for us with Customs. We hope to have a better understanding of where we're going and what their thoughts are, and give us a chance to ask some questions, so we'll look forward to that, and we appreciate your statements, and your views, and we appreciate that report.

Mr. LANDRY. Thank you, Mr. Chairman. Obviously, the modernization signs that Mr. Gorson spoke of we want to see spread.

Senator ABDNOR. Good. We hope to come up with some answers.

OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF DAVID GUSKY, NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Senator ABDNOR. Well, our final witness today will be Mr. David Gusky, of the National Federation of Federal Employees who will testify with regard to the Office of Personnel Management's Insurance Programs.

Mr. Gusky, I'm sorry it was your misfortune to be last.

Mr. GUSKY. Thank you, Mr. Chairman. It's almost like a private meeting now.

Senator ABDNOR. It surely is. You'll have to blame the staff. They did the scheduling.

Mr. GUSKY. No; I understand the problems they have, and public witnesses in appropriations can get rather hectic.

Senator, of course, I have a prepared statement, which I'll submit for the record, and I'll just very briefly discuss the problems that we want to bring to your attention.

I'll limit my remarks to the Federal employees' health benefits program. You may remember when you first became chairman of this subcommittee several years ago, one of the first issues that you had to deal with was with the FEHB program. Dr. Devine initiated a round of benefit cuts, about a 10½-percent cut in overall benefits within the program, claiming there was not enough money to pay the additional costs of these benefits.

His reasoning was that because of the skyrocketing cost of health care, and because of the freeze on agency operating budgets, from which the premium contributions come from, the agencies would not have enough money to pay for these benefits. Therefore, he enacted that 10½-percent cut.

Well, we fear that we're going to face the same problem again this year, and those of you, all three of you may have been enrolled in a health plan under the Federal employees health benefits program, know that the level of benefits is getting dangerously low.

And we really don't think that the program can withstand another round of benefit cuts.

But the problem is clearly there. We are looking again at a freeze in discretionary spending, or a freeze on agency operating budgets. Health care costs have risen approximately 20 percent over the past year, which could mean that premium costs for the FEHB program have also risen about 20 percent over the past year.

So benefits this year will cost about 20 percent more than they did last year for the same level of benefits, and we're quite concerned that Dr. Devine is once more going to say that the agencies don't have money to pay these benefit levels and is going to enact another round of benefit cuts.

We have two things we would ask of you, sir. No. 1, we firmly believe that there is leeway within the agencies' salary and expense accounts to pay the increase in premium costs. During the years preceeding the Reagan administration, there have been continual climbs in premium costs within the FEHB program, yet agencies always had the funds in their S&E accounts to pay the additional costs.

However, as soon as Mr. Devine takes over OPM, all of a sudden the agencies do not have that money any longer. And we would ask you if you can investigate whether or not there will be enough money within the agency budgets to pay the additional premium costs for the current level of benefits within the FEHB program.

And if there is indeed enough money, then we would ask you to prohibit Dr. Devine from enacting a further round of benefit cuts. We think these cuts would be unnecessary.

Second——

Senator ABDNOR. How do you—I'm just curious while we're on the subject, have you got that based on pretty factual——

Mr. GUSKY. Right. As far as the money in the S&E accounts?

Senator ABDNOR. Yes.

Mr. GUSKY. Well, history shows that premium costs have probably risen well over 100 percent over the past decade, and yet agency operating budgets haven't increased anywhere near that amount, yet they've never come back and asked for a supplemental appropriation to pay premium costs, ever.

So the money was there to pay these costs.

Senator ABDNOR. Well, they couldn't take the money out from there for any other purpose?

Mr. GUSKY. No.

Senator ABDNOR. And if it's there, it's there.

Mr. GUSKY. It's there. And yet Dr. Devine, when he came into office, said the agencies didn't have that money.

Senator ABDNOR. Go ahead.

Mr. GUSKY. OK. Now, if that assertion proves unfounded, let's say the agencies do not have that money, then, of course, we would ask you to find the additional $500 million or so to pay the increase in benefit costs. We recognize, of course, that will not be easy.

But we just feel that the FEHB program has—a report came out last year, sir, by the Mercer Commission that was sponsored by the House Post Office and Civil Service Committee showing that the level of benefits within the program is now somewhere near 20 percent behind the average plan in the private sector, and Federal employees pay far more for health benefits than employees in the private sector, too.

So in a sense they're paying a lot more for a lot less. And if we withstand another round of benefit cuts, that means some employees are going to be left with very little coverage.

Senator ABDNOR. Do you think the Government employees pay considerably more for what they receive than in the private sector?

Mr. GUSKY. Oh, unquestionably. Virtually every study shows that now. Now, there was a time, years ago, sir, where the program was a very good program. Employees received comprehensive coverage at a reasonable cost, but that's no longer true.

Senator ABDNOR. Of course this concern is just not with this—we have it all the way through, from the medicare, the medicaid, I mean it's just completely miscalculated, I guess, because of the terrible rising costs of everything.

What you say may be very true. I'm not questioning that, but we can't question the fact that medical costs have skyrocketed above anything else. It's one of the fastest growing items in the budget, health care altogether, and it's one of the biggest things in the gross national product, not just the Government, but health care period makes up $300 billion, or almost 10 percent of the gross national product.

So, it has come from nowhere, and I wish we had somewhere to shackle it and get it under control. This is an additional comment. You were here on another matter. To the degree you feel that there is money in the account, then that's something we surely better find out. But the very fact that there are these skyrocketing costs, whether private or otherwise, is certainly, a fact no one can dispute.

As a matter of fact right now we're concerned about how we're going to take care of—this is not related to you, but all the unemployment we have, the people without health care. How people can get by. But we appreciate your thoughts, and I didn't mean to interrupt you.

Mr. GUSKY. That's all right, Mr. Chairman. I'm glad you are interested enough to ask.

Senator ABDNOR. These are great concerns, and I had no thoughts but what went through my mind that if the accounts were actually that low that rates had to be raised, or benefits had to be cut.

You make some interesting comments, and we certainly should find out, get to the bottom of it.

Mr. GUSKY. We certainly appreciate anything you could do, Senator.

Senator ABDNOR. Well, thank you. And as I said, your prepared statement is in the record in total. Also included is a letter and statement from Charlene Bickford, coordinator for the Coalition to Save our Documentary Heritage and a statement from the Society for History in the Federal Government.

[The statements follow:]

Statement of David Gusky

Mr. Chairman and Subcommittee Members: The National Federation of Federal Employees appreciates this opportunity to testify on Fiscal 1984 Appropriations within the jurisdiction of the Subcommittee. There are a number of issues of concern to us obviously. One matter in particular, however, deserves special attention and I will devote my brief marks to that subject.

I am referring to the Federal Employees Health Benefits Program. As you know, the FEHBP was once one of the finest group health insurance programs in the Nation, offering a unique array of comprehensive health insurance plans to Federal employees and retirees at reasonable cost. In recent years, however, the FEHBP has been a target of what we believe were unnecessary cutbacks in benefit levels. The situation has reached the point where even the most comprehensive plans have been forced to reduce coverage to extremely low levels, and it could deteriorate even further in calendar year 1984.

This situation was precipitated by the Office of Personnel Management. Two years ago it forced the FEHBP carriers to implement a ten and one half percent reduction in benefit levels claiming there was not enough funds to pay the Government contribution to premiums should benefit levels remain consistent with the previous year. Last year OPM did not order benefit cuts. But we believe that was largely because the formula for computing the Government share of premiums was changed to produce a lower overall cost. This occurred when the American Postal Workers Union was replaced as one of the Big Six carriers with the Mail Handlers Plan.

In both 1982 and 1983 there was a general freeze on discretionary spending including agency operating budgets. This freeze maintained agency salary and expense accounts at previous year levels adjusted for inflation. But the inflation rate measured by the Consumer Price Index is far lower than the inflation rate within the medical component of the CPI. In other words, health care costs, including those within the FEHBP, have been increasing at a much faster rate than costs for other consumer products. So while agencies were given operating budgets in those two years that reflected the change in the CPI, OPM claimed they were not raised sufficiently to pay the Government's share of higher premiums for benefit costs that rose nearly 40% during that time period.

In 1982, as I mentioned, OPM reacted to the discretionary freeze by reducing overall benefit levels by ten and one half percent. In 1983 further benefit cuts were avoided when the Big Six membership was altered. This year, however, NFFE fears we face the same situation that occurred in 1982.

Once again, there is the real possibility of a freeze on discretionary spending. Indeed, the House has already passed it in its fiscal year 1984 First Budget Resolution and the Senate could very well follow suit. Should the freeze ultimately be approved, agency operating budgets may experience an average increase of from four to seven percent. But the medical component of the CPI is expected to show a 20 percent jump, raising the cost of the current FEHBP benefit levels from three billion dollars to 3.6 billion dollars.

NFFE is terribly concerned that OPM will again force another round of benefit cuts, and we would like the Subcommittee to help prevent this catastrophe. Federal workers and their families simply cannot afford such little protection from their health insurance plans.

First, we've maintained all along that there is adequate room in the agency salary and expense accounts to finance the additional premium costs generated by the skyrocketing costs of health care. We would like the Subcommittee to investigate this assertion. Should it be found accurate, then OPM should be prohibited, perhaps through a prohibition in the Fiscal 1983 Supplemental Appropriations Bill or the Fiscal 1984 Treasury and General Government Appropriations Bill, from enacting any further benefit cuts from 1983 levels. Should our assertion prove wrong, then we would like the Subcommittee to seek additional funds, perhaps five hundred to six hundred million dollars, to finance the FEHBP through 1984 without further benefit reductions.

We recognize the difficulty of this last request but we firmly believe that health care coverage for Federal workers and their families cannot withstand further benefit reductions without endangering their overall welfare.

This concludes my statement. I will be happy to answer any questions.

LETTER FROM CHARLENE BICKFORD, COORDINATOR FOR THE COALITION TO SAVE OUR DOCUMENTARY HERITAGE

May 3, 1983

Senator James Abdnor
Subcommittee on Treasury, Postal Service,
and General Government Appropriations
132 RSOB
U.S. Senate
Washington, DC 20510

Dear Senator Abdnor:

I was distressed to learn last week that my letter requesting to testify at any public hearings that your subcommittee might hold on the National Archives and Records Service (NARS) appropriation arrived in your office too late. Since I could not be scheduled to speak before you, I would like to request that the enclosed testimony, presented on April 26 before the House subcommittee on Treasury, Postal Sevice, and General Government Appropriations be made part of the hearing record.

As in the past, The Coalition to Save Our Documentary Heritage supports a funding level of $3 million for the grants program of the National Historical Publications and Records Commission and increased funding for the National Archives and Records Service. I think that my testimony illustrates why this funding is necessary.

Thank you for considering this request.

Sincerely,

Charlene Bickford

Charlene Bickford
Coordinator for the
Coalition

STATEMENT OF CHARLENE BICKFORD

I am testifying today as the representative of the 57 member organizations of the Coalition to Save Our Documentary Heritage. These organizations represent historians, archivists, genealogists, editors, educators, librarians, publishers and others who have a common concern for the preservation and publication of the documents that tell the story of our Nation's history for use by this and future generations. I have attached a list of our member organizations to my testimony for your information.

The members of the Coalition urge this committee to increase the total FY84 appropriation for the National Archives and Records Service (NARS) to a figure of $92.2 million and to fund the grants program of the National Historical Publications and Records Commission (NHPRC) at least at the $3 million level.

I will speak first to the NHPRC issue and then to the larger issue of the total NARS budget.

For the third year in a row the NHPRC's grant program is in danger of extinction. In FY82 and FY83, recognizing the importance and effectiveness of this program, the Appropriations committees chose to fund it, even though it was without authorization. A new authorization bill (H.R. 2196) has recently been introduced by Congressmen Brooks, English, Horton, Kindness, and many other cosponsors. This legislation will soon be reported out by the full Government Operations Committee and scheduled for floor action.

The experience of the past two years has proved OMB's contention that the publications projects partially supported by the NHPRC can raise enough private funding to survive to be a pipedream. Although considerable time and effort have been invested in making appeals to foundations and corporations, success in this endeavour has been limited. The corporation set up by the Founding Fathers projects (Adams, Washington, Franklin, Jefferson and Madison) has raised $3.5 million of its goal of $5.0 million for a period of five years, but projects publishing the papers of such notable Americans as Henry Clay, the financier Robert Morris, Frederick Douglass, Susan B. Anthony, Ulysses S. Grant, George C. Marshall and many others have not had the same success. Only a limited number of foundations have goals consistent with supporting documentary history projects, and all of them have been approached. The fact remains that the theory that the private sector will fund these projects completely has not been proven. There are no private foundations or corporations ready to commit the long term stable support that these projects require. Some editors who have gone hat in hand to foundations have even been told that foundations are unwilling to pick up the cost of a program they believe should be funded by the government.

An example of a publications project that would be stopped in midstream is the Freedom History Papers, which is being edited by Dr. Ira Berlin and his staff at the University of Maryland, College Park. This project, based entirely on records in the National Archives, just published its first volume and received glorious reviews for its new insights into the lives of southern blacks during the Civil War and Reconstruction period. One reviewer, Steven Hahn, said in the magazine Democracy, "If this volume is any indication of what lies ahead, Freedom should assume a place as one of the great scholarly and literary achievements of our time." Mr. Chairman, I would like to submit for the record two reviews of recently published NHPRC funded volumes.

In this Congress, as in the last, bills have been introduced to establish a commission that would plan the national celebration of the bicentennial of our Constitution. Yet the projects publishing the documents relating to the founding of our nation are in danger. These projects, The Documentary History of the Ratification of the Constitution and The Bill of Rights, The Documentary History of the First Federal Elections, The Documentary History of the First Federal Congress, and The Documentary History of the Supreme Court (1789-1800), which were initiated by the NHPRC, would be aborted and be unable to provide the published body of documents that should be the centerpiece to any bicentennial celebration.

I have focused on the issue of private funding for the publications projects because both OMB and GSA make the argument that these projects can secure the necessary private funds. The possibility of obtaining foundation or other support for records preservation projects without federal funds as leverage is not even considered. The records program would simply expire without the federal contribution and not even OMB has claimed otherwise.

The NHPRC's grant program has a proven record of success in preserving our nation's documentary heritage. The Commission has worked with the private sector to identify needs and to make the federal contribution as useful and effective as possible. Through this cooperative effort much has been accomplished. The 92 NHPRC sponsored book editions have published 380 volumes, with new books pouring forth at a record rate. 157 microfilm projects have produced over 6,000 reels of film. Over half the states have recently completed records assessment studies, partially funded by the NHPRC, that will provide the data base necessary to set state by state records preservation priorities. The funds appropriated in FY83 for records grants are being employed to fund such records assessment studies in the rest of the states.

The NHPRC was established to assist in a very specific task: the preservation of historic records across this nation and publication of those that are of special importance to the story of our nation's development. From the earliest days of the grants program in 1964, the Commission has insisted upon private support as one of the ingredients in the funding mix of a project to which it awarded financial support. Unlike other granting agencies, the NHPRC never makes grants for indirect costs. Therefore the sponsoring institutions must contribute all the overhead. And the NHPRC also insists that further private funding for the projects be solicited. In other words, the "carrot" of federal funding is used to encourage additional support. Without this "carrot," more would be lost than federal funding. A very carefully constructed public-private funding partnership would collapse. An appropriation of only $3 million would keep this partnership alive.

In FY81 $89 million was appropriated for the National Archives and Records Service. $4 million dollars of the appropriation was for NHPRC grants. Thus, NARS received $85 million to fulfill its mandated mission. The FY84 budget requests $87.1 million for NARS with no grant funds. This FY84 proposed figure represents only a 2.5% increase over the FY81 funding level. If the figure is allowed to stand, NARS will again lose ground in its continual struggle to cope with federal records and to serve the government agencies, researchers and genealogists who need to use these records. Despite the increasing quantity of materials for which NARS has responsibility--between 1960 and 1980, document storage requirements grew from approximately 912,000 to 1,339,000 cubic feet, an increase of 46.8%--its operating budget has not kept pace either with inflation or with the operating budgets of similar agencies with responsibility to preserve the physical evidence of our national heritage.

Last year the Coalition and the National Coordinating Committee for the Promotion of History identified several areas of need, such as installing climate controls in the National Archives building, preservation, long range planning, restoration of staff, and technological improvements, that required increased funding in the NARS budget. Unfortunately, these needs still exist this year. Some progress has been made on planning for the improvements to the Pennsylvania Avenue Building, but in other areas the situation is even more desperate than it was a year ago.

I would like to highlight just one area of NARS responsibility that Representative Rudd raised some questions about at the agency hearings. This is the declassification program. The NARS declassification project staff has been reduced from a high of 105 positions to today's level of 45 positions, half of which are on contract agreement being paid from State Department funds. NARS currently supports only 22 positions on that staff.

Declassification today is limited almost exclusively to two activities: responding to Freedom of Information requests, and declassifying State Department records. The appearance of savings in the National Archives by contracting for declassification is misleading. Ultimately, the Federal treasury is paying for the job, whether the funds go directly to the Archives or through the State Department to NARS.

What the present process means is that those agencies willing to pay for declassification will have their records reviewed. Those that do not wish to have their documents downgraded simply do not contract with NARS to have it done, thereby buttoning up material that might otherwise be reviewed for access. When declassification funds went directly to NARS, it made the decision on what to review, based on the perceived needs of the research public. This is no longer the case, since agencies can keep their records closed merely by not paying for the process of reviewing them.

The rate of declassification activity has thus slowed dramatically. Although part of that slowdown comes from the complexity of post World War II material, most of it can be attributed to underfunding of NARS to process these records and leaving it to the agencies to decide whether they want to fund the declassification or not.

Declassification is just one of the areas where activity has been severely reduced in the past two years. Without an increased appropriation this decline will continue. We have requested a total appropriation of $92.2 million for NARS. We arrived at this figure by taking the final FY83 NARS appropriation ($85.1 million without the grants), adding 4.8% of this figure and the $3 million for grants. The 4.8% increase is the amount that the President has said he is willing to accept as an increase in domestic appropriations this fiscal year.

Although I have advocated a very conservative funding level of $92.2 million for NARS, I feel obliged to warn the members of this committee that such a figure would merely maintain present programs. It would not meet the needs we identified for you last year, and would do nothing to alleviate the declassification situation I just outlined. In order for NARS to regain its former staffing levels and fulfill its mandated mission, a sizable increase in its funding is necessary. I urge this committee to look into the needs of NARS and try to increase its funding substantially in FY85.

It is the responsibility of the federal government to keep its own records and make them available to the American public. The "private sector" cannot be expected to fund this most basic responsibility of the government of a free nation. The records that are and will be housed in the National Archives tell the story of a stable democratic government unique in world history. At the same time, they are an incredible resource for American citizens seeking their "roots." We urge you, even in these times of fiscal restraint, to fund the National Archives and Records Service at a level that will allow it to fulfill its obligations to our government and its people.

STATEMENT OF THE SOCIETY FOR HISTORY IN THE FEDERAL GOVERNMENT

I write on behalf of the Society for History in the Federal Government, an organization comprised of historians and allied professionals working for Federal Government agencies and also of friends in the private sector. Federal historians are seriously concerned about the inability of the National Archives and Records Service (NARS), through no fault of its own, to provide Federal agencies with efficient archival support. Failure in recent years to increase appropriations for NARS, despite substantial inflation, is at the root of these concerns.

Historical programs in agencies of the Federal Government have grown considerably since World War II as program managers came to realize the value of gaining a firm grasp of their agencies' prior successes and shortcomings. The commitment of Federal agencies to historical reflection and evaluation has been especially notable within those agencies that deal most extensively with technological change and with international affairs. The military services, the Department of State, the Atomic Energy Commission, and more recently the Department of Energy have developed vigorous historical programs. Growing public interest in externally oriented historical programs, for example, those of the National Park Service and the Smithsonian Institution, clearly demonstrate broad popular interest in the historical work of the Federal Government.

Just as the Congress and its committees rely on an effective Library of Congress, Federal historians and others studying the Federal Government depend upon a healthy National Archives and Records Service to preserve the records that provide a firm foundation for authoritative historical writing. Whether engaged in depth studies of important agency activities or in specific research on the past designed to support agency decisions, the Federal historian works closely with archivists. Without rational arrangement of official documents and files, without archival inventories and guides, without assistance in declassifying information when appropriate, the historian's productivity would decline drastically.

Reliance upon a continuing resolution to fund NARS during fiscal year 1983 forced substantial staff reductions and curtailment of essential services at the Archives. Therefore, agency historians have experienced serious delays in obtaining required information. Accessioning and declassification of recent documents has been delayed. Historians know full well that future funding based on reduced staff levels will magnify delays in the future.

The growing backlog of accessioning and declassification work has forced one agency, the U.S. Army, to establish a special Southeast Asian War Records Declassification Review Project to organize and declassify records relating to the Southeast Asian struggle. These records are very useful to the Army and to public policymakers, if studied in historical perspective; we are concerned that the archival problems of the day will preclude us from studying the lessons of that conflict. If Congress does not increase support of the National Archives, Federal agencies will follow the example of the Army and develop agency programs to meet pressing needs. Such measures are both expensive and inefficient. To break up and to treat in various ways agency records from several sources is to interfere with the most effective access to information. The ultimate outcome will be to exacerbate the isolation of Government from the citizenry.

Additional funding for the National Archives will confer lasting benefits upon the Federal Government and the people of the United States. The General Accounting Office shares this view. The Comptroller General recently informed a congressional subcommittee: "We believe that any actions which substantially reduce NARS' record management program and staff could * * * reduce the savings which NARS staff can produce for the Government."

Finally, the society earnestly urges line item funding for the grants program of the National Historical Publications and Records Commission, the NHPRC. This organization has lent essential support to State and local efforts, both public and private, to preserve the most important papers of this Nation's leaders and organizations, many of which are in imminent danger of destruction. By supporting historical documentary editing and records preservation programs, the NHPRC enables historians, students, and the general public to gain insight into the thoughts and acts that led our Nation to greatness.

The society is greatful for the opportunity to place its views on this important question before the Congress.

SUBCOMMITTEE RECESS

Senator Abdnor. Well, like you say, we've got a committee of one, here.

Mr. Gusky. Thank you for the meeting, Senator.

Senator Abdnor. Thank you.

This concludes today's hearing, and I thank you for coming, all the other witnesses who were here and left.

Once again for the record, I want to say the entire written statements will be made a part of the record.

With that I will recess until 2 p.m. on April 21 where we will be in SD–192. We'll hear from the Secretary of the Treasury, the Honorable Donald Regan.

The subcommittee stands in recess.

[Whereupon, at 4:15 p.m., Wednesday, April 20, the subcommittee was recessed, to reconvene at 2 p.m., Thursday, April 21.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1984

THURSDAY, APRIL 21, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met, at 2 p.m., in room SD-124, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senators Abdnor, Mattingly, and DeConcini.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

STATEMENT OF HON. DONALD T. REGAN, SECRETARY OF THE TREASURY

ACCOMPANIED BY:

CORA P. BEEBE, ASSISTANT SECRETARY (ADMINISTRATION)

ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS

OPENING STATEMENT

Senator ABDNOR. The subcommittee will come to order, as we continue our budget hearings for this subcommittee. We are pleased to have with us the Honorable Donald T. Regan, Secretary of the Treasury to give us an overview of the Department's fiscal year 1984 proposals. I do not want to take any more time than this, Mr. Secretary, but I am sure we all welcome you to the committee and look forward to your comments.

Senator DeConcini may wish to make a statement.

Senator DECONCINI. I have no comment.

Senator ABDNOR. We would all like to hear from you, Mr. Secretary. We will turn the meeting over to you.

Secretary REGAN. Thank you, Mr. Chairman, members of the subcommittee.

SECRETARY'S OPENING STATEMENT

I am pleased to be here today to discuss the Department of the Treasury's operating budget request for fiscal year 1984.

As you are aware, Mr. Chairman, this Department has a long and venerable history. Created in 1789, we are the second oldest Cabinet department and have performed functions throughout the last two centuries that have proven essential to our Federal system of Government.

With the budget that we are presenting today, we will continue to carry out these essential functions in fiscal year 1984. We will collect over $600 billion in Federal revenues and administer the Nation's tax laws. We will manage the fiscal affairs of the Government, including paying its bills and financing the Nation's public debt. We will manufacture the Nation's currency and coins and help regulate our country's financial institutions.

We will process passengers and cargo coming into the country, enforcing import and export laws at over 300 ports of entry. We will protect the President, the Vice President, as well as other dignitaries. At the same time, we will continue to advise the President on monetary, fiscal, and both domestic and international economic policy.

To carry out these functions, we are requesting a budget of $4.9 billion and 117,963 average positions in fiscal year 1984. This represents an increase of $306 million and a decrease of 343 average positions from comparable fiscal year 1983 levels, which includes pending pay supplemental requests totaling $120.2 million.

Our overall budget increase is designed to carry out three major initiatives. First, we will undertake major efforts to modernize the Nation's tax administration and fiscal systems. Second, we will implement the Tax Equity and Fiscal Responsibility Act of 1982. Third, reflecting the Reagan administration's overall effort to strengthen Federal law enforcement, we will enhance several of Treasury's law enforcement functions.

The budget further reflects our considerable efforts over the last 2 years to make a fundamental change in the way that this Department performs its missions. We are committed to creating an organization that is both lean and efficient.

Reflecting these and other efforts, today we are accomplishing Treasury's missions with fewer people than 2 years ago. Total full-time equivalent staffing levels within the Department from both appropriated and nonappropriated funds have declined from 126,107 in fiscal year 1980 to 118,438 in fiscal year 1982.

Our fiscal year 1984 budget further identifies operating savings of $157 million and 4,125 positions. These savings will help offset the costs of major budget initiatives that we are proposing. I would like to highlight these initiatives.

Treasury witnesses in earlier hearings before this committee have provided additional details.

ADP MODERNIZATION

First, we are requesting $110 million to continue major efforts which were begun last year to modernize Treasury system's equipment. As I indicated in my testimony last year, we cannot postpone the introduction of new technology and modern equipment to replace the many antiquated and inefficient systems still operating in the Department. Our major modernization efforts have been designed to provide effective and efficient processing for tax administration and Federal collection, cash management, and payment systems.

IMPLEMENT TEFRA

The second major initiative in our budget is to implement the Tax Equity and Fiscal Responsibility Act of 1982, for which we are requesting 1,775 positions and $62 million.

As you know, this legislation has as one of its major purposes the raising of additional revenue through measures designed to improve the compliance of taxpayers with the Nation's tax laws. As such, the legislation sets major new requirements in the area of tax administration.

Our fiscal year 1984 budget for the Internal Revenue Service also contains funding for over 5,400 positions, of which 5,200 were added last year in order to raise additional revenue through increased enforcement.

STRENGTHEN LAW ENFORCEMENT

A third major initiative in our budget is to strengthen Treasury's law enforcement capabilities. In total we are seeking program increases of $98 million for Treasury's major law enforcement bureaus, that is, U.S. Secret Service, Bureau of Alcohol, Tobacco and Firearms, and the U.S. Customs Service.

In addition to these three major initiatives that we are proposing, modernizing, implementing the Tax Equity and Fiscal Responsibility Act, and strengthening the law enforcement, our budget anticipates a large, and in a number of areas, growing workload. As I indicated earlier, we will help offset the costs of this additional workload and the initiatives that we are pursuing through major cost cutting efforts.

In total, we have identified savings of over $157 million and 4,125 positions that we will accomplish in fiscal year 1984. Our largest reductions are in the U.S. Customs Service and in the Internal Revenue Service.

For the Customs Service, we believe that essential functions can be carried out while employing greater selectivity in the inspection of both passengers and cargo. Additional savings are possible through the elimination of duplicative positions, the streamlining of organizational structures, the centralization of appraisement functions, and the enhancement of productivity through greater automation.

In IRS, automated procedures, such as the one planned in the collection area, will greatly improve productivity and reduce staffing needs. In addition, savings will be accomplished through revisions to the current program of taxpayer services.

In summary, in terms of the major overall changes to the budget we are seeking $289 million for program enhancements, related primarily to the initiatives that I have described for modernization, implementation of TEFRA, and law enforcement functions; $27 million for increased workload, especially in the processing of public debt securities and the manufacturing of coins at the Mint; $147 million for price increases in such areas as communications, office space, travel, and utilities; an offset of $157 million in program reductions. These include productivity savings and staffing reductions throughout Treasury, particularly in U.S. Customs Service and IRS.

APPROPRIATION LANGUAGE PROPOSALS

Our budget also includes appropriations language that I would like to highlight. We are requesting authority to permit the transfer of up to 2 percent of any appropriation to another appropriation. This authority will provide us with needed flexibility to address problems as they develop during the year.

Under our general provisions, we are also seeking to remove a restriction that has been placed upon the U.S. Customs Service preventing that organization from collecting funds legitimately owed.

Finally, we are seeking language which would repeal an obsolete limitation in the Office of the Secretary working capital fund.

FISCAL YEAR 1983 SUPPLEMENTALS

As part of the overall policy to restrict requests for supplemental funding to only essential items, our budget contains a single request for $120.2 million, reflecting pay and cost increases that have been put into effect.

Mr. Chairman, that summarizes the major proposals of the Treasury Department. I would like to insert for the record a table detailing our request by account, and I shall be happy to answer any questions that the subcommittee may have.

TABLE AND PREPARED STATEMENT

Senator ABDNOR. Without objections, the table will be made a part of the record, as well as your prepared statement which you summarized.

[The information follows:]

STATEMENT OF HON. DONALD T. REGAN

I AM PLEASED TO BE HERE TODAY TO DISCUSS THE DEPARTMENT OF THE TREASURY'S OPERATING BUDGET REQUEST FOR FISCAL YEAR 1984.

AS YOU ARE AWARE, MR. CHAIRMAN, THIS DEPARTMENT HAS A LONG AND VENERABLE HISTORY. CREATED IN 1789, WE ARE THE SECOND OLDEST CABINET DEPARTMENT, AND HAVE PERFORMED FUNCTIONS THROUGHOUT THE LAST TWO CENTURIES THAT HAVE PROVEN ESSENTIAL TO OUR FEDERAL SYSTEM OF GOVERNMENT.

WITH THE BUDGET THAT WE ARE PRESENTING TODAY, WE WILL CONTINUE TO CARRY OUT THESE ESSENTIAL FUNCTIONS IN FISCAL YEAR 1984. WE WILL COLLECT OVER $600 BILLION IN FEDERAL REVENUES AND ADMINISTER THE NATION'S TAX LAWS. WE WILL MANAGE THE FISCAL AFFAIRS OF THE GOVERNMENT, INCLUDING PAYING ITS BILLS AND FINANCING THE NATION'S PUBLIC DEBT. WE WILL MANUFACTURE THE NATION'S CURRENCY AND COINS AND HELP REGULATE OUR COUNTRY'S FINANCIAL INSTITUTIONS. WE WILL PROCESS PASSENGERS AND CARGO COMING INTO THE COUNTRY, ENFORCING IMPORT AND EXPORT LAWS AT OVER 300 PORTS OF ENTRY. WE WILL PROTECT THE PRESIDENT AND VICE-PRESIDENT AS WELL AS OTHER DIGNITARIES. AT THE SAME TIME, WE WILL CONTINUE TO ADVISE THE PRESIDENT ON MONETARY, FISCAL, AND BOTH DOMESTIC AND INTERNATIONAL ECONOMIC POLICY.

TO CARRY OUT THESE FUNCTIONS, WE ARE REQUESTING A BUDGET OF $4.9 BILLION AND 117,963 AVERAGE POSITIONS IN FISCAL YEAR 1984. THIS REPRESENTS AN INCREASE OF $306 MILLION AND A DECREASE OF 343 AVERAGE POSITIONS FROM COMPARABLE FISCAL YEAR 1983 LEVELS, WHICH INCLUDE PENDING PAY SUPPLEMENTAL REQUESTS TOTALLING $120.2 MILLION.

OUR OVERALL BUDGET INCREASE IS DESIGNED TO CARRY OUT THREE MAJOR INITIATIVES. FIRST, WE WILL UNDERTAKE MAJOR EFFORTS TO MODERNIZE THE NATION'S TAX ADMINISTRATION AND FISCAL SYSTEMS. SECOND, WE WILL IMPLEMENT THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982. THIRD, REFLECTING THE REAGAN ADMINISTRATION'S

OVERALL EFFORT TO STRENGTHEN FEDERAL LAW ENFORCEMENT, WE WILL ENHANCE SEVERAL OF TREASURY'S LAW ENFORCEMENT FUNCTIONS.

THE BUDGET FURTHER REFLECTS OUR CONSIDERABLE EFFORTS OVER THE LAST TWO YEARS TO MAKE FUNDAMENTAL CHANGES IN THE WAY THAT THIS DEPARTMENT PERFORMS ITS MISSIONS. WE ARE COMMITTED TO CREATING AN ORGANIZATION THAT IS BOTH LEAN AND EFFICIENT. TOWARD THAT END:

-- WE HAVE INSTITUTED AUTOMATION, REVISED OPERATING PROCEDURES, AND OTHER MANAGEMENT IMPROVEMENTS TO MINIMIZE THE NEED FOR INCREASES IN PERSONNEL AND OPERATING FUNDS TO MEET A GROWING WORKLOAD.

-- WE HAVE UNDERTAKEN MAJOR REFORMS IN A SERIES OF AREAS, INCLUDING STRENGTHENING CASH MANAGEMENT, IMPROVING DEBT COLLECTION, AND REDUCING THE PAPERWORK AND REGULATORY BURDEN IMPOSED UPON THE AMERICAN PUBLIC.

-- WE HAVE REDUCED THE LEVEL OF EFFORT APPLIED TO LESS ESSENTIAL ACTIVITIES.

REFLECTING THESE AND OTHER EFFORTS, TODAY WE ARE ACCOMPLISHING TREASURY'S MISSIONS WITH FEWER PEOPLE THAN TWO YEARS AGO. TOTAL FULL TIME EQUIVALENT STAFFING LEVELS WITHIN THE DEPARTMENT, FROM BOTH APPROPRIATED AND NON-APPROPRIATED FUNDS, HAVE DECLINED FROM 126,107 IN FISCAL YEAR 1980 TO 118,438 IN FISCAL YEAR 1982.

OUR FISCAL YEAR 1984 BUDGET FURTHER IDENTIFIES OPERATING SAVINGS OF $157 MILLION AND 4,125 POSITIONS. THESE SAVINGS WILL HELP OFFSET THE COSTS OF THE MAJOR BUDGET INITIATIVES THAT WE ARE PROPOSING.

I WOULD LIKE TO HIGHLIGHT THESE INITIATIVES. TREASURY WITNESSES IN EARLIER HEARINGS BEFORE THIS COMMITTEE HAVE PROVIDED ADDITIONAL DETAILS.

FIRST, WE ARE REQUESTING $110 MILLION TO CONTINUE MAJOR EFFORTS WHICH WE BEGAN LAST YEAR TO MODERNIZE TREASURY SYSTEMS AND EQUIPMENT. AS I INDICATED IN MY TESTIMONY LAST YEAR, WE CANNOT POSTPONE THE INTRODUCTION OF NEW TECHNOLOGY AND MODERN EQUIPMENT TO REPLACE THE MANY ANTIQUATED AND INEFFICIENT SYSTEMS

STILL OPERATING IN THE DEPARTMENT. WE HAVE RECENTLY CREATED A NEW SENIOR LEVEL POSITION, THE ASSISTANT SECRETARY FOR ELECTRONIC SYSTEMS AND INFORMATION TECHNOLOGY, TO COORDINATE THE UPGRADING OF OUR SYSTEMS. OUR MAJOR MODERNIZATION EFFORTS ARE DESIGNED TO PROVIDE EFFECTIVE AND EFFICIENT PROCESSES FOR TAX ADMINISTRATION AND FEDERAL COLLECTION, CASH MANAGEMENT, AND PAYMENTS SYSTEMS.

TO MODERNIZE OUR TAX ADMINISTRATION SYSTEM, WE ARE REQUESTING $93 MILLION FOR A SERIES OF PROJECTS THAT AFFECT ALMOST EVERY FUNCTION PERFORMED BY THE INTERNAL REVENUE SERVICE. TO ILLUSTRATE, IRS WILL AUTOMATE ITS COLLECTION EFFORTS, THEREBY NOT ONLY ENHANCING OUR CAPABILITIES IN COLLECTING LEGITIMATE REVENUES OWED THE GOVERNMENT, BUT ALSO REDUCING FUTURE STAFFING NEEDS. IRS WILL INTRODUCE OPTICAL CHARACTER RECOGNITION TO REPLACE MANUAL DATA ENTRY PROCESSES FOR VARIOUS IRS FORMS AND INFORMATION REQUIREMENTS. IMPLEMENTING A NEW OPTICAL DISC STORAGE SYSTEM FOR TAX RECORDS WILL REDUCE THE NEED FOR PAPER FILES. IRS WILL ALSO ENHANCE DATA PROCESSING SYSTEMS IN TAX PROCESSING AND ENFORCEMENT ACTIVITIES. THESE, AND OTHER INITIATIVES, ARE ESSENTIAL IF WE ARE TO HAVE AN EFFECTIVE TAX ADMINISTRATION SYSTEM CAPABLE OF COPING WITH THE REQUIREMENTS OF THE 1980'S, AND LAYING THE BASIS FOR THE 1990'S.

WITH RESPECT TO THE GOVERNMENT'S FISCAL SYSTEMS, OUR BUDGET INCLUDES $15 MILLION TO SUPPORT SEVERAL PROJECTS DESIGNED TO MODERNIZE THE SYSTEMS BY WHICH THE GOVERNMENT COLLECTS, MANAGES, AND DISBURSES ITS FUNDS. GREATER EFFICIENCIES IN THESE SYSTEMS WILL RESULT IN DIRECT SAVINGS FROM BETTER CASH MANAGEMENT, AND WILL ENABLE US TO PLAN BETTER FOR A VARIETY OF FINANCIAL PURPOSES, INCLUDING THE FINANCING OF THE PUBLIC DEBT. IN FISCAL YEAR 1984, THE BUREAU OF GOVERNMENT FINANCIAL OPERATIONS WILL CONVERT FROM CARD TO PAPER CHECKS, UPGRADE THE COMPUTER SYSTEMS AT ITS DISBURSING CENTERS, AND ENHANCE THE GOVERNMENT'S COLLECTION SYSTEMS THROUGH THE REPLACEMENT OF PAPER PROCESSING WITH ELECTRONIC TECHNOLOGY. THE BUREAU OF THE PUBLIC DEBT WILL MAKE TECHNOLOGICAL IMPROVEMENTS TO SPEED THE PROCESSING OF SAVINGS BONDS REDEMPTIONS.

THE SECOND MAJOR INITIATIVE IN OUR BUDGET IS TO IMPLEMENT THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982, FOR WHICH WE ARE REQUESTING 1,775 POSITIONS AND $62 MILLION.

AS YOU KNOW, THIS LEGISLATION HAS AS ONE OF ITS MAJOR PURPOSES THE RAISING OF ADDITIONAL REVENUE THROUGH MEASURES DESIGNED TO IMPROVE THE COMPLIANCE OF TAXPAYERS WITH THE NATION'S TAX LAWS. AS SUCH, THE LEGISLATION SETS MAJOR NEW REQUIREMENTS IN THE AREA OF TAX ADMINISTRATION. THESE INCLUDE WITHHOLDING ON INTEREST AND DIVIDENDS, REPORTING OF TIPS AND OTHER WAGES, REVALIDATING EMPLOYEE PENSION PLANS, IMPOSING NEW CIVIL PENALTIES ON PERSONS WHO FILE OR PREPARE FALSE TAX RETURNS, EXPANDING REPORTING REQUIREMENTS AND PENALTIES FOR FAILURE TO COMPLY, AND CHANGING THE RULES REGARDING THE COMPUTATION OF INTEREST ON UNDERPAYMENTS AND OVERPAYMENTS OF TAXES.

TO ILLUSTRATE SOME OF THE EFFECTS OF THESE PROVISIONS ON THE WORKLOAD OF IRS, WE EXPECT TO MATCH WITH ANNUAL RETURNS OVER 350 MILLION INFORMATION DOCUMENTS REFLECTING TAX WITHHELD ON INTEREST AND DIVIDENDS. WE WILL REVIEW AND APPLY NEW PENALTIES IN THE EXAMINATION OF 400,000 TAX RETURNS. WE WILL ALSO REVALIDATE OVER 800,000 AMENDED EMPLOYEE PENSION PLANS.

THROUGH THE COMPLIANCE AND WITHHOLDING PROVISIONS OF THIS LEGISLATION, WE EXPECT TO INCREASE FEDERAL REVENUES BY AN ESTIMATED $11 BILLION IN FISCAL YEAR 1984. THIS WILL GROW TO AN ESTIMATED $12 BILLION ANNUALLY BY FISCAL YEAR 1988.

OUR FISCAL YEAR 1984 BUDGET FOR THE INTERNAL REVENUE SERVICE ALSO CONTAINS FUNDING FOR OVER 5,400 POSITIONS, OF WHICH 5,200 WERE ADDED LAST YEAR, IN ORDER TO RAISE ADDITIONAL REVENUES THROUGH INCREASED ENFORCEMENT. WE ESTIMATE THAT NET COLLECTIONS FROM THESE ADDITIONAL RESOURCES WILL TOTAL $1.9 BILLION IN FY 1983 AND $2.4 BILLION IN FY 1984. THE MAJORITY OF THESE STAFFING INCREASES ARE DEVOTED TO COLLECTING DELINQUENT TAXES. IN THIS AREA, I WOULD NOTE THAT THE INTERNAL REVENUE SERVICE, THROUGH THE FIRST HALF OF FISCAL YEAR 1983, HAS

EXCEEDED COLLECTION GOALS BY OVER $600 MILLION, AND WE EXPECT THIS TREND TO CONTINUE FOR THE REMAINDER OF THE YEAR.

A THIRD MAJOR INITIATIVE IN OUR BUDGET IS TO STRENGTHEN TREASURY'S LAW ENFORCEMENT CAPABILITIES. IN TOTAL, WE ARE SEEKING PROGRAM INCREASES OF $98 MILLION FOR TREASURY'S MAJOR LAW ENFORCEMENT BUREAUS -- SECRET SERVICE, BUREAU OF ALCOHOL, TOBACCO, AND FIREARMS, AND U.S. CUSTOMS SERVICE.

AS YOU ARE AWARE, THE PRESIDENT HAS INITIATED A MAJOR INTERAGENCY EFFORT TO CURTAIL THE MULTI-BILLION DOLLAR ILLICIT DRUG INDUSTRY. UNDER THE LEADERSHIP OF THE JUSTICE DEPARTMENT, TASK FORCES HAVE BEEN ESTABLISHED IN MAJOR URBAN AREAS TO THWART THE ACTIVITIES OF KEY DRUG TRAFFICKERS. SEVERAL OF TREASURY'S LAW ENFORCEMENT BUREAUS PARTICIPATE IN THIS EFFORT, AND A TOTAL OF $33 MILLION IS INCLUDED IN THE FY 1984 BUDGETS FOR CUSTOMS, IRS, AND THE BUREAU OF ALCOHOL, TOBACCO, AND FIREARMS.

THE CUSTOMS BUDGET ALSO CONTAINS $18 MILLION TO ESTABLISH A SECOND AIR MODULE TO PREVENT THE IMPORT OF ILLEGAL DRUGS INTO THE COUNTRY. WE NEED ADDITIONAL EQUIPMENT TO DETECT AND PURSUE SMUGGLERS, WHO ARE DIVERTING ILLEGAL DRUGS AWAY FROM SOUTH FLORIDA BECAUSE OF OUR SUCCESSFUL ENFORCEMENT ACTIVITIES IN THAT AREA. IN ADDITION, WE ARE CURRENTLY DISCUSSING WITH THE DEFENSE DEPARTMENT THE USE OF CERTAIN MILITARY AIRCRAFT AND RADAR WHICH WOULD BE LOANED TO CUSTOMS FOR AIR INTERDICTION.

IN ADDITION, THE CUSTOMS BUDGET CONTAINS AN INCREASE OF $10 MILLION FOR EQUIPMENT PURCHASES IN SUPPORT OF PROJECT EXODUS, WHICH IS DESIGNED TO STOP THE FLOW OF SOPHISTICATED TECHNOLOGY TO THE SOVIET UNION AND HER ALLIES.

THE FY 1984 BUDGET FOR LAW ENFORCEMENT ALSO CONTAINS FUNDS IN SUPPORT OF TWO SIGNIFICANT EVENTS -- THE 1984 PRESIDENTIAL CAMPAIGN AND THE OLYMPICS. TO PROVIDE PROTECTION FOR ALL PRESIDENTIAL CANDIDATES DURING THE CAMPAIGN, THE BUDGET FOR THE SECRET SERVICE CONTAINS AN ADDITIONAL $27.7 MILLION FOR OVERTIME, TRAVEL, AND THE RELOCATION OF STAFF. TO CARRY OUT THE VISITOR PROCESSING AND DIGNITARY PROTECTION FUNCTIONS

ASSOCIATED WITH THE OLYMPICS, WE ARE REQUESTING A TOTAL OF $9.3 MILLION FOR SECRET SERVICE, CUSTOMS, AND THE BUREAU OF ALCOHOL, TOBACCO, AND FIREARMS.

IN ADDITION TO THE THREE MAJOR INITIATIVES THAT WE ARE PROPOSING -- MODERNIZING, IMPLEMENTING THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT, AND STRENGTHENING LAW ENFORCMENT -- OUR BUDGET ANTICIPATES A LARGE AND, IN A NUMBER OF AREAS, GROWING WORKLOAD. FOR EXAMPLE:

- IRS WILL PROCESS 169 MILLION TAX RETURNS IN FISCAL YEAR 1984, AN INCREASE OF OVER 3 PERCENT FROM THE PREVIOUS YEAR.
- WE EXPECT TO AUDIT 1.5 MILLION TAX RETURNS.
- WE ANTICIPATE THAT 322 MILLION PERSONS WILL ARRIVE AT U.S. BORDERS AND THAT WE WILL PROCESS 5.2 MILLION FORMAL ENTRIES -- 4 PERCENT AND 6 PERCENT RESPECTIVELY MORE THAN IN 1983.
- TREASURY WILL ISSUE OVER 89 MILLION SAVINGS-TYPE SECURITIES, AND RETIRE 135 MILLION OF THEM; THIS REPRESENTS AN INCREASE OF 4 PERCENT IN SALES.
- WE WILL PRINT 5 BILLION PIECES OF CURRENCY, AN INCREASE OF 10 PERCENT, AND 30.8 BILLION POSTAGE STAMPS. WE WILL MANUFACTURE 21 BILLION COINS, AN INCREASE OF 19 PERCENT.
- WE WILL MAKE ALMOST 744 MILLION PAYMENTS, AN INCREASE OF 2 PERCENT OVER 1983.

AS I INDICATED EARLIER, WE WILL HELP OFFSET THE COSTS OF THIS ADDITIONAL WORKLOAD AND THE INITIATIVES THAT WE ARE PURSUING THROUGH MAJOR COST CUTTING EFFORTS. IN TOTAL, WE HAVE IDENTIFIED SAVINGS OF OVER $157 MILLION AND 4,125 POSITIONS THAT WE WILL ACCOMPLISH IN FY 1984.

OUR LARGEST REDUCTIONS ARE IN THE U.S. CUSTOMS SERVICE AND THE INTERNAL REVENUE SERVICE. FOR THE CUSTOMS SERVICE, WE BELIEVE THAT ESSENTIAL FUNCTIONS CAN BE CARRIED OUT WHILE EMPLOYING GREATER SELECTIVITY IN THE INSPECTION OF BOTH PASSENGERS AND CARGO. ADDITIONAL SAVINGS ARE POSSIBLE THROUGH THE ELIMINATION

OF DUPLICATIVE POSITIONS, THE STREAMLINING OF ORGANIZATIONAL STRUCTURES, THE CENTRALIZATION OF APPRAISEMENT FUNCTIONS, AND THE ENHANCEMENT OF PRODUCTIVITY THROUGH GREATER AUTOMATION. IN IRS, AUTOMATED PROCEDURES, SUCH AS THE ONE PLANNED IN THE COLLECTIONS AREA, WILL GREATLY IMPROVE PRODUCTIVITY AND REDUCE STAFFING NEEDS. IN ADDITION, SAVINGS WILL BE ACCOMPLISHED THROUGH REVISIONS TO THE CURRENT PROGRAM OF TAXPAYER SERVICES.

IN SUMMARY, IN TERMS OF THE MAJOR OVERALL CHANGES TO THE BUDGET, WE ARE SEEKING:

-- $289 MILLION FOR PROGRAM ENHANCEMENTS, RELATED PRIMARILY TO THE INITIATIVES THAT I HAVE DESCRIBED FOR MODERNIZATION, IMPLEMENTATION OF THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT, AND LAW ENFORCEMENT FUNCTIONS;

-- $27 MILLION FOR INCREASED WORKLOAD, ESPECIALLY IN THE PROCESSING OF PUBLIC DEBT SECURITIES AND THE MANUFACTURING OF COINS AT THE MINT;

-- $147 MILLION FOR PRICE INCREASES IN SUCH AREAS AS COMMUNICATIONS, OFFICE SPACE, TRAVEL, AND UTILITIES;

-- AN OFFSET OF $157 MILLION IN PROGRAM REDUCTIONS; THESE INCLUDE PRODUCTIVITY SAVINGS AND STAFFING REDUCTIONS THROUGHOUT TREASURY, PARTICULARLY IN THE U.S. CUSTOMS SERVICE AND IRS.

APPROPRIATION LANGUAGE PROPOSALS

OUR BUDGET ALSO INCLUDES APPROPRIATIONS LANGUAGE THAT I WOULD LIKE TO HIGHLIGHT.

WE ARE REQUESTING AUTHORITY TO PERMIT THE TRANSFER OF UP TO 2 PERCENT OF ANY APPROPRIATION TO ANOTHER APPROPRIATION. THIS AUTHORITY WILL PROVIDE US WITH NEEDED FLEXIBILITY TO ADDRESS PROBLEMS AS THEY DEVELOP DURING THE YEAR.

UNDER OUR GENERAL PROVISIONS, WE ARE ALSO SEEKING TO REMOVE A RESTRICTION THAT HAS BEEN PLACED UPON THE U.S. CUSTOMS SERVICE, PREVENTING THAT ORGANIZATION FROM COLLECTING FUNDS LEGITIMATELY OWED. SPECIFICALLY, RECENT COURT DECISIONS

HAVE DETERMINED THAT TREASURY LACKS THE LEGISLATIVE AUTHORITY TO REQUIRE THE PAYMENT OF CERTAIN CUSTOMS BILLS IN A TIMELY FASHION. AS A RESULT, IMPORTERS AND OTHERS HAVE DELAYED PAYMENTS FOR SUBSTANTIAL PERIODS OF TIME WITHOUT PENALTIES, THEREBY RESULTING IN AN INCREASE OF OVER 100% -- FROM LESS THAN $20 MILLION TO OVER $40 MILLION -- IN OUR ACCOUNTS RECEIVABLE IN THIS AREA. OUR PROPOSED LANGUAGE WILL REMEDY THAT SITUATION BY ESTABLISHING THAT PAYMENTS WILL BE DUE UPON LIQUIDATION OR RELIQUIDATION. TO ALLOW THIS SITUATION TO CONTINUE IS UNFAIR TO THE AVERAGE TAXPAYER WHO MUST FINANCE THE REVENUE LOSS ARISING FROM THIS SITUATION.

FINALLY, WE ARE SEEKING LANGUAGE WHICH WOULD REPEAL AN OBSOLETE LIMITATION IN THE OFFICE OF THE SECRETARY WORKING CAPITAL FUND.

FISCAL YEAR 1983 SUPPLEMENTALS

AS PART OF THE OVERALL POLICY TO RESTRICT REQUESTS FOR SUPPLEMENTAL FUNDING TO ONLY ESSENTIAL ITEMS, OUR BUDGET CONTAINS A SINGLE REQUEST FOR $120.2 MILLION, REFLECTING PAY AND COST INCREASES THAT HAVE BEEN PUT INTO EFFECT. SPECIFICALLY, THIS AMOUNT WILL COVER THE OCTOBER 1982 PAY INCREASE, THE INCREASE IN THE EXECUTIVE LEVEL PAY CAP, AND THE INITIAL CONTRIBUTION FOR GOVERNMENT EMPLOYEES TO BE COVERED BY MEDICARE.

MR. CHAIRMAN, THAT SUMMARIZES THE MAJOR PROPOSALS OF THE TREASURY DEPARTMENT. I WOULD LIKE TO INSERT FOR THE RECORD A TABLE DETAILING OUR REQUEST BY ACCOUNT. I SHALL BE HAPPY TO ANSWER ANY QUESTIONS THAT THE SUBCOMMITTEE MAY HAVE.

THE DEPARTMENT OF THE TREASURY
Summary of Budget Estimates for FY 1984
(Dollars in Thousands)

Treasury Subcommittee	FY 1982 Appropriation		FY 1983 Proposed Level		FY 1984 Estimate		Total Changes		Program Changes		Other Changes	
	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount
Office of the Secretary	1,111	$55,729	1,231	$62,409	1,268	$69,949	37	$7,540	37	$5,394	---	$2,146
Fed. Law Enforce. Trng. Center	242	12,318	243	12,803	243	14,481	---	1,678	---	413	---	1,265
Bureau of Gov't Financial Oper:												
Salaries and Expenses	2,442	231,865	2,534	243,946	2,493	242,995	-41	-951	---	17,446	-41	-18,397
Fishermen's Protective Fund	---	2,000	---	---	---	---	---	---	---	---	---	---
Postal Savings System Liquidation	---	200	---	---	---	---	---	---	---	---	---	---
Bureau of Alcohol, Tobacco and Firearms	2,442	142,164	2,850	147,492	2,874	157,122	24	9,630	100	9,250	-76	380
U.S. Customs Service	12,924	527,173	13,492	575,067	11,748	578,749	-1,744	3,682	256	50,632	-2,000	-46,950
Bureau of the Mint:												
Salaries and Expenses	1,331	47,489	1,255	47,558	1,151	49,558	-104	2,000	60	4,593	-164	-2,593
Expan. & Improve.	---	3,969	---	5,200	---	3,070	---	-2,130	---	-2,130	---	---
Administering of the Public Debt	2,406	178,234	2,432	199,934	2,432	205,605	---	5,671	---	6,767	---	-1,096
Internal Revenue Service:												
Salaries and Expenses	3,952	164,376	---	---	---	---	---	---	---	---	---	---
Processing Tax Ret. & Exec. Dir.	28,007	894,162	26,499	890,797	27,201	988,479	702	97,682	813	85,286	-111	12,396
Examinations & Appeals	29,416	958,822	34,739	1,184,847	36,301	1,287,026	1,562	102,179	1,515	56,793	47	45,386
Investigation, Collec. and Taxpayer Service	21,482	654,566	29,126	967,368	28,259	1,016,046	-867	48,678	494	44,836	-1,361	3,842
Total, IRS	82,857	2,671,926	90,364	3,043,012	91,761	3,291,551	1,397	248,539	2,822	186,915	-1,425	61,624
Payment Where Energy Credit Exceeds Liability for Tax	---	440	---	300	---	200	---	-100	---	---	---	-100

Treasury Subcommittee	FY 1982 Appropriation		FY 1983 Proposed Level		FY 1984 Estimate		Total Changes		Program Changes		Other Changes	
	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount
U.S. Secret Service	3,638	195,429	3,905	240,462	3,993	270,860	88	30,398	88	37,200	---	-6,802
Subtotal, Treasury Subcom.	109,893	4,068,936	118,306	4,578,183	117,963	4,884,140	-343	305,957	3,363	316,480	-3,706	-10,523
HUD-Independent Agencies:												
Office of Revenue Sharing	137	6,209	131	6,867	133	7,678	2	811	2	603	---	208
NYC Seasonal Loan Guar. Prog.	---	822	---	---	---	---	---	---	---	---	---	---
Subtotal, HUD-Indep. Agen.	137	7,031	131	6,867	133	7,678	2	811	2	603	---	208
State, Judiciary & Commerce												
Chrysler Corp. Loan Guar. Prog.	14	1,356	13	1,222	10	1,005	-3	-217	-3	-217	---	---
Total, Appro. Operating Acct. Permanent Authorization, Claims Trust Acct., Gen. Rev. Sharing, & Proposed Leg.	8,394	107,211,869	8,621	113,642,274	8,230	130,181,177	-391	16,538,903	---	---	-391	16,538,903
GRAND TOTAL, Treasury	118,438	$111,289,192	127,071	$118,228,546	126,336	$135,074,000	-735	$16,845,454	3,362	$316,866	-4,097	$16,528,588

#30039.1 April 6, 1983 (M1)

FLOOR VOTE

Senator ABDNOR. We thank you for that brief summary. You have covered a lot of territory in a few short minutes.

Senator Mattingly, I am going to call on you first because I heard you say you had to leave.

Senator MATTINGLY. I do. I think we are all going to have to leave. Was that for a vote?

Senator ABDNOR. I think it was. I do not know what the vote is.

Senator MATTINGLY. If it is the vote I think it is, gentlemen, I——

Senator DECONCINI. I would suggest you stay.

Senator MATTINGLY. We thought we might go over there and vote twice, once on your behalf. [Laughter.]

FISCAL YEAR 1983 SUPPLEMENTAL

Just some beginning questions.

You said you were requesting $120 million in the fiscal year 1983 supplemental. Is that broken out somewhere? You say in pay and cost increases. Is it broken out by pay?

Ms. BEEBE. We will provide you a table.

Senator MATTINGLY. You will provide a table. Good. We should see what that is because I think that will probably be coming up sooner than anything else being marked up.

Just trying to cover some of the possibilities here, I know this is a tough question, but when we are in such tight economic straits, I must ask, would there be any way to operate the budget at the fiscal year 1983 level for you all?

[The information follows:]

Department of the Treasury proposed fiscal year 1983 supplemental

	Budget authority
Office of the Secretary	$2,026,000
Office of Revenue Sharing	255,000
Chrysler loan guarantee	11,000
NYC Seasonal Loan Administration	0
Federal Law Enforcement Training Center	306,000
Bureau of Government Financial Operations	0
Bureau of Alcohol, Tobacco and Firearms	0
U.S. Customs Service	17,617,000
Bureau of Engraving and Printing	0
Bureau of the Mint—Salaries and expenses	0
Expansion and improvement	0
Bureau of the Public Debt	0
Savings Bonds Division	0
Internal Revenue Service	94,822,000
U.S. Secret Service	5,462,000
Comptroller of the Currency	0
Total	120,499,000

MAJOR REDUCTIONS IN PERSONNEL

Secretary REGAN. If we were to make major reductions in people in certain areas, we could do that. We have to have increases in certain areas. I will give you a couple of examples.

Next year we are planning for at least 12 Presidential candidates who will require Secret Service protection. The summer Olympics will be held in the United States next year. This will require protection for more dignitaries. We are also trying to keep up with Operation Exodus and the drug traffic enforcement programs. So we will need additional people for that. To operate at the 1983 level, we would have to cut back in some of the other areas.

Senator MATTINGLY. You will not need any more additional money when the withholding is repealed, will you? I mean as far as personnel.

Secretary REGAN. In all seriousness, Senator, we have been looking at that very carefully to see what might happen. I know of no way, currently, that I could assure you that we could collect the same amount of money in fiscal year 1984 as we could from withholding the same amount of taxes.

We have tried to study the problems. Our initial estimates came up at somewhere between 30,000 and 40,000 additional people at a cost of $1 billion that we might be able to do something, but when you think of adding that number to the staff, training those people, putting the programs in order, it will be 1985, 1986, 1987 before we could fully implement the program to equal the amount that we would collect.

Senator MATTINGLY. That is not considering compliance by making the taxpayer attach the 1099 forms?

Secretary REGAN. We understand, and if that does eventually become the law of the land, we will have to take a look at how we will use that. But you have to understand here again——

Senator MATTINGLY. Who came up with the 30,000 to 40,000 people?

Secretary REGAN. You have to understand that here again, as a former person connected very closely with the electronics industry, we are going to have pieces of paper. We are going to have to be able to translate those pieces of paper that come in attached to the return and to somehow or other get them on discs, optical reading, things of that nature. We will need that additional type of equipment to get that on. We cannot physically match that up with these returns.

Senator MATTINGLY. And in the $306 million increase that you are asking, you are talking about $110 million to, say, continue major efforts which began last year to modernize Treasury systems and equipment. Isn't that for computers?

Secretary REGAN. That is for computers and optical reading, things of that nature; storage, optical disc storage also.

Senator MATTINGLY. I wish I did not have to go to another meeting because I would certainly like to pursue this, but I am sure that some of my associates here will.

Senator ABDNOR. Well, let me say at this time, Senator, that there are two votes on the floor. Providing the tabling motion carries, there will be a second vote, up or down, on the Dole-Cass amendment. We will wait to the very end so that we can make both votes at one time. We are going to ask the Secretary to stay a little longer if he could.

Secretary REGAN. I would be very happy to.

Senator ABDNOR. Do you want to pursue your questions?

Senator MATTINGLY. No; I would just as soon come back later and pursue it.

Senator ABDNOR. Senator DeConcini?

Senator DECONCINI. Mr. Chairman, thank you.

SECRET SERVICE BUDGET

Let me go back to a couple of things the Secretary had to say. You were talking about the Secret Service. Last year this committee, Mr. Secretary, and the Congress directed the hiring of an additional 200 Secret Service agents and provided the funds to pay for the fiscal year 1983 costs of those slots. Yet I understand that the Secret Service budget that is pending before Congress now only allows funding to pay for 150 of the positions we gave Secret Service in the continuing resolution just last December.

I also understand the Secret Service budget is $19 million less than you initially put before OMB. What is the situation? If we have the 12 candidates for President and the Olympics and all the problems that you mentioned here, what is the administration's rationale for shortchanging the Secret Service in 1984 or not paying for all of the agents that we provided in 1983?

Ms. BEEBE. If I might respond technically to that question. The Secret Service is authorized 200 positions in fiscal year 1983. However, given the time required to recruit these individuals and bring them on board we anticipate achieving only 150 full-time equivalents. That is the number of staff-years worked.

Senator DECONCINI. By the end of this fiscal year?

Ms. BEEBE. Yes; we estimate 150 staff-years will be worked by the end of this fiscal year.

Secretary REGAN. But this would require an additional 200 people.

Senator DECONCINI. Well, you know, I get a different answer from Secret Service. They say they could get them all on board.

Ms. BEEBE. They anticipate hiring the additional 200 people before the end of the fiscal year, but those 200 people will only have worked the equivalent of 150 staff-years.

Senator DECONCINI. I see.

Then how do you justify the $19 million less in the budget?

Ms. BEEBE. The proposed fiscal year 1984 budget for the Secret Service is sufficient to cover their operational needs.

Senator DECONCINI. The 200.

Ms. BEEBE. Yes.

Senator DECONCINI. OK. Thank you.

ORGANIZED CRIME DRUG TASK FORCE

In the budget revisions that we received from the President just today, I believe, I notice that he is recommending a cut of $16 million in the pending fiscal year 1984 budget request for the organized crime drug enforcement program, from $104,949 to $88,949. According to the budget revision documents, this cut would offset funding provided in title I of the jobs bill for the organized crime drug enforcement program.

The problem I have is that no funds were provided in title I of the jobs bill for the organized crime drug enforcement program. There was no money provided for the Federal prisons systems and for support of U.S. prisoners, but nothing for the regular task force activities.

Now, you are a member of that task force. No. 1, are you aware of this in the President's revision; and No. 2, if you are, how do we justify cutting $16 million from a program that we are all on board on, and I think is one of the more positive things I have seen. What are you going to do about it?

Secretary REGAN. Well, as I understand it, this is in Justice's budget, that the $4.1 million is from our budget here. And we are providing that $4.1 million. At Treasury, we are fully funded.

Senator DECONCINI. That is correct. I do not have the Attorney General here or the FBI Director or anybody else who is on the task force. I have you, and I wondered if there had been any reason given to you for the offset.

Secretary REGAN. I do not have an answer for you on that.

Senator DECONCINI. Could you make an inquiry for the committee, please?

Secretary REGAN. I will make an inquiry, and I will submit it for the record.

Senator DECONCINI. I greatly appreciate it because I hope it is a mistake.

U.S. CUSTOMS SERVICE PERSONNEL

We also had a long talk the other day about the cutbacks in Customs, and I appreciate the quandry you are in, though I do not totally agree with it. I continue to believe that such massive cuts in key personnel groups within Customs are ill-advised, and I want to express that to you, as the Department head, and to the President.

To me it is a law enforcement issue that demands high priority. Again, just this afternoon I received and was looking over the President's budget revisions and his supplemental requests. I was distressed to see that the President is recommending that the $3,750,000, which I added with the concurrence of the chairman, by the way, to the jobs bill for the Customs air program is going to be offset against the fiscal year 1984 Customs budget request. This proposed offset, coupled with the pending proposal to cut 2,000 Customs slots, leads me to the unfortunate conclusion that maybe the administration is not as committed as I would like to think they are to drug interdiction. I wish you might explain that.

I realize you may not have had a chance to even look at these documents, as I had just looked at them before I came in here today. But I wondered what you know about the offset for 1984, and then if you would comment on the 2,000 cuts in Customs personnel.

Secretary REGAN. Well, let me try to explain that one, Senator. As far as the $3.7 million, that is for radar, reequipping the plane that we will be getting from DOD. We want to test that radar and the like before we authorize the use of similar radar in similar planes, which we will be receiving from DOD.

So accordingly, we asked for the money up front as a supplement in order to get started on the program. If it proves successful, and we can tell that——

Senator DECONCINI. Excuse me, Mr. Secretary. There was no budget request for this money. This was put in the jobs bill for doing what we want you to do.

Secretary REGAN. I understand. That money was put in there, and we are going to use that. We would have put it into our budget had it not been put into the jobs bill.

Senator DECONCINI. OK.

Secretary REGAN. The net result of that is that we will be testing the radar sooner as a result of funds having been included in the jobs bill, rather than waiting for that now.

But I would rather go a little cautiously and not spend the money for the additional radars, which would be a total of $18 million, until such time as I know that the radar that will be equipped can be used for the purposes for which we want it to be.

AIR MODULE

Senator DECONCINI. My question is: Why is the $3.7 million taken off the 1984 budget?

Ms. BEEBE. The technical reason is, if I might explain it, we have the money for the air module in the 1984 budget. We have now worked out agreements with the Defense Department where we will not be acquiring the second air module. That $18 million would be used to fund the support costs of the military equipment that we will be borrowing.

Since a portion of that is going to be acquired in this fiscal year, we simply are reducing from the $18 million the costs that had been forward funded in this current fiscal year.

Senator DECONCINI. So the $18 million—excuse me—will be reduced by the $3 million because you got $3 million of it up front, in fiscal year 1983?

Ms. BEEBE. That is right.

Senator ABDNOR. Can I interrupt?

Can we just recess briefly? I think we can get both votes in rather quickly now, and we will be right back.

[A brief recess was taken.]

Senator ABDNOR. We are back in order.

Senator DeConcini, you were questioning.

Secretary REGAN. Thank you, Mr. Chairman.

Secretary REGAN. Senator, may I tell you something?

Senator DECONCINI. Yes, please.

ORGANIZED CRIME DRUG TASK FORCE

Secretary REGAN. I took advantage of the break here to try to answer your question on the organized crime task force, and it is my understanding after contacting the Justice Department that they have done much the same thing that we have done with our air module. Because the money was put in the 1983 budget through the jobs bill, and the like, we do not have to duplicate that in the 1984 budget.

We originally had it in our 1984 budget. We then withdrew that amount of money from our budget request. The remaining $14 million in our request out of the $18 million will be used to support military aircraft that we will get and use instead of a second air module.

Senator DECONCINI. I see. Thank you.

Secretary REGAN. And present construction funding is the same thing. That has now been funded in 1983. It had originally been proposed for 1984. Therefore, they pulled it back in 1984.

Senator DECONCINI. Thank you.

Secretary REGAN. So there is no reduction in funding of the organized crime task force.

Senator DECONCINI. Thank you, Mr. Secretary. That is helpful, and I appreciate your looking it up.

U.S. CUSTOMS SERVICE PERSONNEL

Now, would you address the second part of my question regarding what we talked about the other day a little bit, the Customs reduction of 2,000 slots.

Secretary REGAN. Yes.

Senator DECONCINI. And, please give your detailed explanation for the record, if you would, and then what you think might be the possibility of restoration of any of those.

Secretary REGAN. Well, first of all, Senator, we are requesting an increase in personnel and an increase in funding, an increase in staff-years of 220 and an increase in budget of $14.4 million for the organized crime drug enforcement program. So we are adding to the number of people in Customs who will be in the organized crime drug enforcement program, 220 staff-years.

Senator DECONCINI. But you are reducing or taking them away from inspectors and other places, are you not?

Secretary REGAN. I will come to that.

Senator DECONCINI. Excuse me. I am sorry.

Secretary REGAN. We are also requesting 31 new people or 31 new staff-years for the summer Olympics. Those are two pluses.

Now we have the minuses. The total on the minuses is 2,000 staff-years, and if you take these pluses of 256 that I have just described, we are asking for a net reduction of 1,744 positions.

Now, 918 of those are from inspection and control selectivity. We think that we can facilitate this because we made a pilot test in Houston, Tex. and we found that by looking at cargo selectively, and here we are talking about low-risk, low-productivity type of goods coming in, that we can save people, time and money.

Under the tariff and trade selectivity, we would like a reduction of 450 staff-years. That is a new system. It checks on the accuracy of the documentation and the degree of effectiveness of the Custom's procedure. We can do this after the fact, a post-audit type of procedure. Have the goods come in, and then later review what goods did come in, how were they paid for, what should have been paid, and the like. Using that technique you do not have to have people available on the dock. You merely check it and then later put a post-audit trail on it.

Centralized appraisement, same thing. We now have 70 centers where you can go for appraisal for Customs. We think we could cut that to 35 and combine, and in the cominbation get more efficiencies. For example, if there are two, and let's say Pennsylvania is a case in point, there is one appraisal center in Pittsburgh and another in Philadelphia. You could go to either one. You might get a different result from one group or the other group. If you centralized them, you would have all of the same type of item being appraised in the same fashion in that particular State, so you would not have shopping around, things of that nature.

We think that would save 156 staff-years. We know that the regional district consolidation is through. We went from nine to seven regions and we will have savings this year of 170 staff-years as a result of what we did last year.

We now have physical presence of Customs agents in certain warehouses. If it is a bonded warehouse, we do not need that. We think we can get more into that bonded warehouse type of thing and have professional audit and review of records, spot checks of inventories, and the like.

Senator DECONCINI. Alright.

Secretary REGAN. We started that system in ATF with alcohol and found that by moving to the bonded warehouse system, we were able to save people, and we still have not lost efficiency, at least in our judgment.

So putting that all together, there is where we get that reduction of the 2,000 staff-years.

Senator DECONCINI. Mr. Secretary, far be it from me to question your expertise in Customs. But if we are moving forward, which it appears to me that we are, in the effort of organized crime and drug enforcement with the task forces and in the national narcotic interdiction border system, headed by the Vice President, it would be wrong to give up or acquiesce to a reduction of 2,000 slots in Customs. They are short of people, short of time, and short of equipment. Maybe you are not in a position to fight for it and I do not want to put you in contradiction with your own administration, but doesn't it make sense that this is the time to increase the law enforcement part of the Treasury Department, particularly, say, the inspectors that will be cut so substantially? Isn't there some merit to be going the other way rather than the reductions?

Secretary REGAN. Well, again, I would have to make a generalization here. If I thought that the way that Customs has developed its programs over the years was the only way to do it or is the most efficient way to do it, I would not be requesting this. I am convinced after some on-site inspections that we can make greater efficiencies.

There is an enormous amount of paperwork in these Customs operations, and I think that much of that can be better processed with fewer people and more efficiencies. That is what we are suggesting that we get started on.

Now, if there is a judgment by this subcommittee that perhaps we are wrong or perhaps we should go slow, we are more than willing to talk about it. We are more than willing to testify at hearings on the particular items where you can go into greater detail to try to explain our program, to help you arrive at what your decision will be.

Senator DECONCINI. Well, I thank you for that, Mr. Secretary. I guess that is really the answer I was looking for. We all want to have what we want in these jobs, and I appreciate the offer and the cooperation that both Customs and your Department have offered to cooperate with us. That makes it easier for me to, at least, satisfy my own concerns and then vote my convictions.

I just have two more questions, and I will try to end up here, Mr. Chairman.

U.S. CUSTOMS SERVICE OFFICE CLOSINGS

As you know, Mr. Secretary, the subcommittee is holding an important hearing next Monday with the U.S. Customs Service to discuss, among other things, Treasury's plan to consolidate or close certain Customs offices and appraisement functions around the country. Customs wants to cut the number of appraisement offices, as you said, from 70 to about 35, as I understand it, and shift important import specialists and other staff to other office locations.

In our joint letter to the Customs Commissioner, Mr. van Raab, we asked that no action be taken on any of the proposed office closings or consolidation until we have had a chance to thoroughly review the plan.

In light of the considerable congressional concern that I know you have experienced and that has been expressed over the Customs' closings, both in this committee and outside of it, has Treasury's posture on going ahead with these closings or consolidations changed, or do you still plan to move forward with the closings and consolidations immediately after the review is completed? Can you comment?

Secretary REGAN. We put this on hold until such time as this committee has had its hearings and has arrived at some conclusion. We will not move forward until we find out, and we hope we can convince you of the wisdom of our way.

Senator DECONCINI. I thank you.

Secretary REGAN. Incidentally, I might just indicate briefly some of what we are trying to do. We have 13 that we are in phase one. As I mentioned, the Pennsylvania one of moving the one person from Pittsburgh to Philadelphia and closing the Pittsburgh office; from Charlotte to Wilmington in North Carolina; from Jacksonville to Tampa in Florida; from Eagle Pass to Loredo in Texas; Phoenix to Nogales in Arizona, and so on. It is that type of consolidation that we are making.

We do not think that it will inconvenience people who have to use the Customs services for appraisal because we have over 350 ports of entry and only 70 of these offices around the country now. So it will not be that much more difficult, but at the same time, you will get more expertise concentrated in one office rather than have it scattered. Also, it will elimiate "port shopping" by importers and enhance Customs' automation plans.

Senator DECONCINI. Well, Mr. Secretary, I appreciate that. I might disagree with you on at least the ones that I am familiar with, but certainly if it is on hold, that is all we can ask for, to give us that time to review it and then consult with you.

OPERATION EXODUS

My last question, Mr. Secretary, is I understand that the Commerce Department is attempting to move into the enforcement arena in Operation Exodus—your program, which this Congress has supported wholeheartedly, to halt the flow of high tech technology to Soviet bloc countries. Frankly, I would oppose such a move.

What is the status of negotiations between Treasury and Commerce on the Exodus program? What is your position on it?

Secretary REGAN. As you know, the Congress charged the Commerce Department with carrying this out. They traditionally for years now have assigned their responsibilities to Treasury because we have the expertise in Customs. At the current moment they have about 42 agents in that program.

They are sensitive to the fact that they are charged with the responsibility and they wonder if Customs is able to carry this out. They wonder if they should not be doing more on their own rather than just leaving it as is.

They recognize that in the past perhaps Customs has not been as active in this area as perhaps it should have been, but it was not a priority item. It has become a priority item now. We have insisted upon it.

We think that we are gearing up and have a lot more expertise in April 1983 than perhaps we had in April 1982 or, indeed, in April 1981. We are gathering this body of knowledge and have trained people.

We do not think that Commerce has to duplicate Customs. They do not want to duplicate either, but they wonder what is the optimum point for them. I have discussed this personally with Malcolm Baldridge, and our deputies have been discussing this for several months now. At the present moment it is unresolved, but we are trying to resolve the question and come up with a united position.

It also involves, if I might add, whether or not these Commerce agents should go abroad and pursue their investigations there, an investigation that might have started in the United States. Our point of view at Treasury is that this is confusing to Customs people abroad. You go to another nation, and you have first Customs people there they are accustomed to dealing with, and now there is a new body of law enforcement coming in from the United States that may be duplicative and very confusing. They may not want to give up their sources.

A lot of this, as you know, comes from tips and advice from others, and they may not want to reveal their sources to new people. So we have advised them that they should not be doing this.

Senator DeConcini. Now, these Commerce agents, are these law enforcement agents?

Secretary Regan. That is one of the things that they are trying to get, is law enforcement privileges for them, the ability to carry weapons, ability to——

Senator DeConcini. They are not now so authorized?

Secretary Regan. They are not now, and they have petitioned the Justice Department to grant them that authority.

Senator DeConcini. Do you oppose this?

Secretary Regan. I do not oppose that. In some cases these 42 agents investigate in strange places and their lives may be at stake. I think they should be armed. I think that they could have subpena powers, things of that nature. I have no objections to that.

TRANSFER OF OPERATION EXODUS

Senator DeConcini. Mr. Secretary, do you oppose any further transfer over to the Commerce Department of this program?

Secretary Regan. Yes; at the present moment, I have been resisting that.

Senator DeConcini. Well, you sound a little bit hesitant, like you are about ready to tip over. Is a decision imminent the other way?

Secretary Regan. I do not tip very easily, Senator. The decision——

Senator DeConcini. No; I know that.

Secretary Regan. The decision is not imminent because of the fact that I have stood still and said "no," I do not think we should go any further. I made a proposal that I would go along with getting them armed and having other law enforcement tools, but I said that I thought our position should be, and will be, that Customs should have priority here and that they can be aided by Commerce, but Customs should maintain its supremacy in the field.

Senator DeConcini. Well, I thank you, and I can assure you this Senator's support of your program, and I am glad you do not tip very easily. We will not go into withholdings, but we all tip sometimes, Mr. Secretary. Just do not tip on this one, please.

Thank you, Mr. Chairman.

Secretary Regan. Thank you, Senator.

FOREIGN LAW ENFORCEMENT OPERATIONS

Senator Abdnor. If I might, Mr. Secretary, would you elaborate on personnel working with other countries. I did go to Europe for a week last year, and I stopped at our Customs and Secret Service and a number of agencies. They do have a very fine working relationship. Customs took me over to Scotland Yard and I wholeheartedly agree it would be a big, big mistake now to try to put that in other hands as I think they work extremely well.

I could not get over how willing they are to work with us, and apparently we depend on them a great deal for many, many responsibilities that are carried out. I would like to side with the Senator from Arizona to say that I would hate to see any drastic changes go on in that program.

You were talking earlier, and it is an awfully important part of your program, about the automatic data-processing equipment. What is that really going to do for us? Is it going to save us bucks? Like in dollars, what are we talking about?

AUTOMATIC DATA PROCESSING

Secretary REGAN. Well, it depends on which one of the programs. If you will hold it a minute, I think we have some figures on that.

Ms. BEEBE. $110 million and 97 average positions split between the Internal Revenue Service and the Bureau of Government Financial Operations.

Secretary REGAN. Those figures that we just gave you are the new amounts of money that we are requesting.

Senator ABDNOR. Oh, yes, I realize that. But what does it mean?

Secretary REGAN. The savings I know is what you want.

Ms. BEEBE. OK. Let me look that up.

Secretary REGAN. I know we have it because I asked the same question before I signed off on this.

Ms. BEEBE. The fiscal year 1984 budget for the Internal Revenue Service includes the savings of 853 positions and $21 million associated with the automated collection system and various returns processing automation efforts. These projects were begun in fiscal year 1983 and will continue in fiscal year 1984.

In addition, in the Bureau of Government Financial Operations, we have savings for our postal equipment of eight average positions and $3 million. Now, those are savings from activities that were put in place in the 1983 budget, as they impact 1984, and I did not bring with me the projected savings for the new equipment that we will put in place in 1984, which would have savings in 1985. We will provide that to you.

Secretary REGAN. But of course, the other thing, Senator, that any such program does is it facilitates the handling of paper. When you are able to use ADP equipment, you are able to process things faster, and the like. We are getting an increasing workload in all divisions of Treasury. The Government is spending more money. We are sending out more checks. The debt is increasing. We have to handle more issues, things of that nature, not to mention the IRS in a stepped-up, collection system, and the like.

You cannot throw people at these jobs. We have to have the electronic capability to be able to process this in a speedy manner.

We will get you for the record a list of what we think the potential savings of this are, but it literally is in the millions of dollars over the next several years as a result of the introduction of these systems.

[The information follows:]

Internal Revenue Service
ADP and Systems Modernization

Following is a list of the Services ADP and systems modernization projects planned during the FY 1983 through FY 1988 period. The cost and quantified benefit justifications, where available, are explained.

-Equipment Replacement Program-

The FY 1984 budget requests: 107 average positions and $7.8 million.

The Equipment Replacement Program hardware investment will require $117.15 million between FY 1983 and FY 1988. This program was initiated to replace existing ADP equipment which is obsolete and was beginning to cause serious operational delays. In some instances, current equipment was no longer manufactured and replacement parts were becoming hard to find. In other cases, the manufacturer was no longer willing to provide service on the antiquated equipment.

Since this program was justified and approved on the basis of the necessity to update obsolescent equipment and obtain additional processing capacity, the program does not provide comprehensive benefits across the board. There are however, operating benefits which accrue from the use of larger capacity, more modern ADP hardware. The Microfilm Replacement System segment of ERP does provide a direct savings of 1000 staffyears when full implementation is reached in FY 1985.

- Automated Collection System-

The FY 1984 budget requests: 275 average positions and $25.5 million.

The FY 1984 implementation costs planned for the Automated Collection System are estimated at approximately $44 million. These costs include the acquisition of hardware, systems software, applications software, site preparation, and $15 million in the Collection activity for communications costs. The Automated Collection System offers many advantages over the current, paper-oriented system. By increasing the productivity of the office Collection function, there will be an increase and acceleration of the flow of revenue to the Treasury.

The resulting improvements to be derived from this system will be an increase in taxpayer compliance, containment of the growing Collection workload, improved quality of case closure, decrease in inventory turnover time and improved information to manage the Collection function. The overall benefits will substantially exceed the investment costs over the systems life. By FY 1985 alone, there will be a cumulative net savings of approximately 1500 Collection staffyears. A substantial increase in benefits can be achieved by increasing revenue production through the

reapplication of Collection savings to field Collection operations.

- Automated Examination System-

The FY 1984 budget requests: $5.9 million, five million of which is for ADP equipment related costs.

The Automated Examination System is a productivity enhancing automation project designed to integrate and improve the entire examination pipeline process. The project will improve the inventory management system, transfer and storage of examination data, the timeliness of examinations, and eliminate "lost" interest on additional assessments due to slow processing. The estimated investment costs are $126 million between FY 1983 and FY 1988 including costs for training, travel and facilities.

The benefits of this system will be derived from clerical staffing reductions in the Examinations pipeline. An increase in tax assessments through the reapplication of these clerical savings and improved cash flow to the Treasury will yield significant benefits. Since the anticipated procurement process will be governed by OMB Circular A-109, the variance in scope and latitude allowed vendors may cause significant differences in both costs and benefits. Refined estimates will be known at a later interval in the project schedule.

- Tax Processing System Redesign-

The FY 1984 budget requests: 60 average positions and $6.3 million.

All current ADP tax processing is built around and governed by the master file at NCC. The centralized master file concept was designed in the early 1960's, using the tape oriented batch processing technology of that time. The original system's primary functions were high volume processing, accounting control, and billing. Since the original design was implemented, the tax processing system has grown enormously in size and complexity.

Growth directly affecting the basic accounting functions is attributed to additional types of tax returns, increases in returns filed, and legislative changes. However, much of the total system growth has been in non-accounting applications, the nature and impact of which could not be forseen during original design.

The primary methods of dealing with demands on the system have been to:

- add power to the component systems via hardware;
- design new systems with a magnetic tape;

- interface to the primary systems; and
- enhance the efficiency of existing processing.

Although this patchwork expansion has solved immediate problems such as obsolescence and insufficient capacity, the overall results have been minimally compatible hardware systems, incompatible software, and data and processing redundancy. All of these factors have contributed to increased maintenance overhead, development time, system complexity, and growing inflexibility.

The Service recognized and formally addressed these issues beginning with the TAS70 study by MITRE Corporation in 1969. This led to a major redesign effort called the Tax Administration System (TAS), which addressed all ADP tax processing systems and included major enhancements for users as well as replacement of all service center and NCC equipment. Although the design was completed and an RFP for systems procurement was prepared in early 1976, TAS was abandoned in 1977 in the face of Congressional concerns.

Subsequent to TAS, the Service planned an equipment replacement incorporating some user enhancements. The plan eventually adopted in response to the overriding need to modernize the tax processing system equipment, was the ongoing Equipment Replacement Program (ERP).

Over the years, the benefits associated with a redesign have changed as the current system has evolved and the Service's program emphasis has changed. Many of the previous enhancements have been or are being implemented and others no longer carry their previous priority. Nevertheless, the basic ADP problems remain and will continue to be magnified as the system continues to grow.

Unlike the traditional system design and procurement IRS has experienced in the past, adherence to OMB Circular A-109 requires a significantly different planning and approval process. It is important to note that, in following an alternative design process, the ultimate costs, benefits, extent of a pilot operation, and implementation time frame cannot be predicted with any specificity until design concepts are substantially developed and tested. However, an implementation schedule will be developed, as part of the acquisition strategy, with the following goals for design, development and production:

Concept Development	FY 1982-1983
Design Development	FY 1983-1985
Test/Pilot	FY 1985-1987
Phased Implementation	FY 1987-1989

The following benefits are anticipated:

- reduction of data and processing redundancy;
- standardized system interfaces;
- application software compatibility among systems;

- availability of data when and where needed;
- reduction of software maintenance overhead;
- increased productivity of systems personnel;
- increased efficiency of operations (personnel and facilities);
- data and program security;
- data control and flexibility; and
- performance measurement and projection.

As previously indicated, project costs have not been estimated due to the need for mission analysis and the wide range of potential solutions to the identified needs. Total reprogramming and equipment replacement may be necessary in order to obtain the benefits and achieve the goals described above. Cost/benefit analysis of the various designs procured may result, however, in a design that allows the retention of certain software and/or hardware with related reductions in costs.

- Integrated Data Retrieval System (IDRS) Terminal and Modem Replacement-

The FY 1984 budget requests: 4 average positions and $9.2 million.

The equipment investment costs for IDRS replacement are $85.2 million between FY 1983 and FY 1988. The present equipment was installed early in the 1970's and has become unreliable, resulting in frequent IDRS downtime and increased maintenance costs. In addition to modem problems which have created significant downtime, the terminal vendor no longer manufactures that product and the lack of replacement parts will cause increasingly severe problems in the immediate future. Since there is no capacity for new requirements in the existing system, new program needs would necessitate the acquisition of new hardware and a redesign of the communications network.

While implementation of this program will increase costs in the next several years, the replacement program will result in cost savings by FY 1988. These savings will total $1.9 million by 1990.

- Optical Character Recognition (OCR) for Federal Tax Deposits (FTD's)-

The FY 1984 budget requests: $.5 million.

Implementation of optical character recognition equipment to process Federal Tax Deposits (FTD's) represents the initial step in reducing IRS's labor-intensive, manual, data transcription processes, such as keypunching and key-to-disc entry. The change in FTD processing and the redesign of the FTD form, involved a transfer of workload between the Bureau of Government Operations and the IRS. These changes mandated the use of OCR technology to avoid increased costs which would have been required if expansion of an already inefficient data entry system had been required. Equipment Investment costs are estimated to be $12.7 million between FY 1983 and FY 1988. The major benefits to be achieved through this program will be savings in data entry clerical labor generated by the lower cost automated process employing an OCR scanning system.

- Optical Character Recognition (OCR) for Remittance Processing System (RPS)-

The FY 1984 budget requests: $5.6 million.

The OCR-Based Remittance Processing System will reduce manual transcription and other labor associated with remittance processing in the service centers. This technology would replace existing manual data entry and verification at remittance processing system work stations. There would also be improvements in the cash flow and overall cash management of the Service as well as reductions in the cost of a labor intensive operation with high turnover costs. Investment costs between FY 1983 and FY 1988 are $5.8 million.

Projected benefits are estimated at $11.6 million. This included direct resource savings as well as almost $5 million is additional interest as a result of an accelerated deposit cycle.

- High Speed Non-Impact Printers

The FY 1984 budget requests: $2.4 million.

An investment of $30.1 million between FY 1983 and FY 1988 is required to acquire high speed non-impact printers. In addition to increasing overall printing efficiency in the service centers, new printers are a integrated element and prerequisite of the Service's OCR initiatives enhancements which are dependent on the production of scannable material. These printers are designed to meet the print specifications required by IRS OCR service center equipment.

In addition to benefits derived as a part of the OCR initiatives, the printers will enable the Service to save approximately $3 million per year or $24 million over the systems life cycle in postage costs.

- Checking Sorting Equipment-

No additional resources are requested in FY 1984.

The acquisition of automated check sorting equipment is a productivity initiative with a high level of payback. This system, which is being tested at one of the service centers, will permit the earlier issuance of cash letters thus accelerating deposit of approximately $22 billion in tax deposits. The cost of this equipment is $5 million between FY 1983 and FY 1986.

There is a projected annual savings of $10.5 million in interest savings once the system is fully implemented.

- Distributed Input System (DIS)-

The FY 1984 budget requests: 5 average positions and $.8 million; an additional $5.4 million is being covered from the base maintenance availability of the DDE system being replaced.

Planned hardware expenditures for the Distributed Input System are estimated at $36.5 million between FY 1983 and FY 1988. The system will replace the Direct Data System which is obsolescent and deteriorating. The new system will provide a distributed system offering maximum flexibility, updated systems technology, protection from catastrophic failure, and reconfiguration and specialization of function capability.

In addition to the prevention of an ultimate breakdown of the existing direct data entry system, DIS will save the Service $8.2 million in maintenance costs over a six year operating period. Estimated energy costs of the new system are only 9% of the existing system.

- Four Phase Equipment Replacement-

The FY 1984 budget requests: 7 average positions and $4 million.

The replacement of the Service's financial management automated systems will cost $8.7 million between FY 1984 and FY 1988. This acquisition will replace

ADP equipment acquired in 1973 that has long since exceeded its projected seven years systems life. The replacement system will not only provide multiprocessing capabilities enabling the present applications to run more efficiently, but will also provide the capacity and capability to exhance existing applications, add needed new requirements, and provide office automation benefits to the Financial Management organization.

The Bureau of Government Financial Operations' FY 1984 improvement projects total $15 million with projected savings of approximately $1.2 billion. Each of the projects is summarized below:

The Disbursing Centers Systems Upgrade entails exercising an equipment purchase option for the replacement of obsolete and non-standard computer systems in the Bureau's eight disbursing centers. This project will enable the Bureau to disburse government payments in an efficient and standardized fashion, as well as to handle the workload involved with increased reliance on Direct Deposit/Electronic Funds Transfer. Funds requested are $2 million with a cost avoidance of $22 million being achieved over an eight year period.

The Direct Deposit/Electronic Funds Transfer (DD/EFT) project encompasses the Bureau's efforts to increase the use of this payments mechanism through legislative initiatives, system improvements, and enhanced education and marketing efforts. Increased use of DD/EFT will generate operational savings by reducing the number of checks issued, mailed and reconciled and the number of check claims. $403,000 are requested for this effort with the potential for savings exceeding $37 million annually.

The Check Payment and Reconciliation System Redesign (CP&R) project will upgrade the current CP&R system which was implemented in 1956. The current system cannot respond to new requirements for reconciliation, accounting and reporting, or implement program changes which could yield improved performance and cost savings in the processing of checks and claims. $2.1 million are requested for the redesign of this system.

The Conversion to Paper Check requires procurement of modern printing equipment for processing the new paper check. This will enable the Bureau to continue performing its mission of providing check disbursing services for the U.S. Government in an efficient manner. The paper check is less costly than card stock and eliminates reliance on the punched card technology currently used in the check issue process. A one time expenditure of $5.6 million for the equipment will enable the Bureau to achieve check stock savings of $3 million annually.

Recertification involves system development whereby the agencies (and not BGFO) are responsible for certification of the second payments (recertification) on the basis of claims that the original payment has been lost, forged or otherwise not received. By assigning financial accountability to the agency with the closest relationship to the payee, it is expected that outstanding receivables and the number of related uncollectible payments will be substantially reduced. $194,000 are requested for this project.

The Treasury Financial Communications System Expansion involves expanding the current Treasury Financial Communications System. This system is the Bureau's electronic funds transfer mechanism for low-volume, high-value payments. Expanding this system to allow for increased users will accelerate the receipt of deposits and improve control of the timing of payments and thus increase the availability of funds to Treasury. $170,000 are requested for this project. Savings are projected at $173 million.

The Treasury General Account Modernization project encompasses major system modifications to provide quicker access to the revenues collected (over $100 billion annually) and, therefore, improved cash forecasting. $181,000 are requested for this project. The savings to the government are estimated at $35 million.

The Governmentwide Accounting Project is designed to study and evaluate electronic applications for the modernization, control and standardization of governmentwide accounting functions. $868,000 are requested.

The Collections Mechanism Project involves redesigning the current Government Collection System, establishing collections requirements and creating the basis for future improvements. $1.2 million are requested.

Funds Control will allow immediate access to cash forecasting data via telecommunications links for the receipt of financial data which are the bases for financial decisions made in regard to Treasury available cash balances. $175,000 are requested for the telecommunications link.

The Cash Management Information System involves development of a prototype cash forecasting system which will enable Treasury to manage cash flow of about $1.5 trillion more effectively. Major savings are projected at $750 million. $786,000 are requested in FY 1984.

Prompt Bill Payment involves development of a system to centralize control over Federal agencies bill payment practices. Standardized bill payment practices could produce interest savings of about $200 million annually. $713,000 are requested.

Interest Billing provides the operational means to implement Title 31 of the Code of Federal Regulations, (Subparagraph 240.4 and .5) which imposed interest charges on reclamations outstanding for more than 60 days. $714,000 is requested.

MANPOWER

Senator ABDNOR. The manpower you save will be put in other areas, will it?

Secretary REGAN. No; as a matter of fact, not in Treasury. The manpower may be used elsewhere, from our point of view, hopefully in the private sector.

GENERAL PROVISIONS CHANGES

Senator ABDNOR. You are proposing several changes in general provisions. Do you know what I refer to in section 103? I am interested in section 103 regarding the collection of payments due on duties. Do we have quite a problem there in the collections?

Secretary REGAN. Yes; what has happened here is these supplemental duties have grown more than 100 percent in 1982, from $20.6 to $42.5 million as moneys that are due to us. This came about as a result of a court decision, and the bills are not due and payable until the liquidation or reliquidation. That means that any importer who is doing business with Customs can delay paying legitimate bills for up to 90 days without any repercussions, and simply by saying he is considering whether or not he is going to file a protest over the amount that we have charged him. He is riding the float, in other words. He has not paid us and, therefore, is able to hold onto the moneys longer.

We would like to get our hands on this money by saying, all right, rather than have you do that, we will put a firm date on which the bill is due, and if you do not pay it by that date and you want to protest it, go ahead. But if you lose, we want interest from the date the bill was due until your case was finally heard. If you win, obviously you get it and we will pay you interest.

Senator ABDNOR. Will a high percentage of entities take advantage of that?

Secretary REGAN. Yes; well, they have handed me a chart here. I do not know whether you can see it or not, but there is the increase on this line here [indicating] of what has happened from 1981 to 1983 as a result of this court case. Smart importers or brokers realize what has happened here, and they can delay this to where they do not have to pay for up to 270 days.

Well, you give anyone 9 months' float, and they are going to take advantage. What we are suggesting, the changes: OK, here is the date on which the bill is due. Want to argue about it? Take your chances. If you win, we pay you interest. If you lose, you pay us interest, at the going rate.

Senator ABDNOR. What has to be done to make that change? I mean just regulation?

Ms. BEEBE. No; it has to be changed in statute because the court overturned our operating rules. We provided the committee a very simple sentence to be added in the general provisions to our bill, which simply sets a date certain 45 days after the supplemental bill is due. It is due and collectible by Customs, and then we would pay interest if it turned out that we had been in error. We would pay interest at the same rate that the brokers currently pay us.

Excuse me. It is 25 days, not 45 days.

Senator ABDNOR. It is what, 25, not 45?

Ms. BEEBE. Twenty-five.

ORGANIZED CRIME DRUG TASK FORCE

Senator ABDNOR. Let me jump over for a second to this organized crime task force that is being put together. We think it is a good idea. We are happy to see it take place and the active role that Treasury will be playing. You have a great contribution to make to that with the people you have.

How many people is Treasury going to have in that, 500? Is that the number?

Secretary REGAN. Yes; we are requesting $32.9 million and 500 average positions for the program.

Senator ABDNOR. I guess the Justice Department is the lead agency in the effort.

Secretary REGAN. Well, they are requesting, as I understand it, close to $14 versus our $12.7 million, and 750 positions versus our 500.

Senator ABDNOR. And they are following up on several of the Treasury initiatives?

Secretary REGAN. Oh, yes.

Senator ABDNOR. With Justice I just hope that the Attorney General seeks your advice from time to time and the expertise of the Treasury's enforcement agents. I think working together will bring greater results than those people just taking it over. We would like to see the same kind of results as our task force in Florida has in working together, and there is a lot of room for that sort of thing.

U.S. CUSTOMS SERVICE PERSONNEL

Let me now jump back one moment to the inspectors in Customs. Now, I made an observation when I was in Los Angeles. I came to the conclusion if I really wanted to take a risk in something illegal and make some money from it, I would rather take my chances of trying to bring something illegal into this country through Customs and make a big profit than to rob a bank or by some other situation. I just do not know. You can streamline all you want to, but I do not think there is any answer for that inspector being there, checking out personally who the people are going through and what is going through.

Secretary REGAN. Well, let me try to answer that, Senator, by saying this. Sure, a certain amount of contraband can be carried in handbags or hand luggage coming in. More though usually is brought in in other ways.

Senator ABDNOR. Oh, yes.

Secretary REGAN. It is going after what we would consider high risk type of cargo, concentrating efforts on that, we think is a better way to stop the larger amounts coming in.

Now, obviously some is going to slip through. We are never going to stop all of it, but I think that in selectivity, knowing better the type of operations that criminals use, things of that nature, we are able to get a line on where most of this might be coming in.

I will give you an example. I had a personal experience just recently at the West Palm Beach Airport. I had been down on business and was returning. Going into the airport, I was told by the Secret Service there was a drug bust in progress. So I went out to watch and see what had happened. Well, it so happened that a Citation plane coming in from Nassau had radioed that it was having trouble and needed to land immediately. The private aircraft taxied over to a different area than the commercial, and sometimes Customs follows them. Sometimes they do not, depending upon their own feeling in the matter.

In this particular case, they could not quite understand why a plane coming in from Nassau would be low on gas because the distance from Nassau to West Palm Beach is not that long. Accordingly, Customs decided they had better inspect that craft. They found out why they were low on gas. They had doctored their fuel tanks, and they had 30 million dollars' worth of cocaine in those gas tanks. Now, there is the type of thing where you know what might happen. You know the place of origin, where the plane is coming from and the like. An ordinary plane coming into West Palm Beach out of, let's say, Charlotte, N.C. probably would never have been picked up, but somebody coming in from Nassau, you get suspicious, that type of thing.

Senator ABDNOR. Oh, I recognize that is the big thing you are after, and that is what the drug interdiction program is all about. But there is still an awful lot. You know, maybe putting it all together, going through the gates of Customs would not make up one airplane, but it is still an invitation, and I have to believe it could become quite a business on a smaller scale if we put less and less attention to it.

I do not think there is anywhere you can let up on this, because even small amounts are serious business. I just wonder when you drop 918 if you are not giving an open invitation to "try your luck."

Do you have any other questions?

Senator DECONCINI. Yes, Mr. Chairman, if I could just indulge the Secretary just a minute regarding the simple or flat tax proposals that are still kicking around.

FLAT TAX PROPOSAL

Last year, Mr. Secretary, and I cannot remember the exact words, but we had a discussion about it. You said that your office, or your research arm, was working on it and doing a study. I wonder if you can report to us where you are in the Treasury Department on developing either recommendations or theories or approaches or scenarios or whatever you might call them, or economic modes that might develop on this flat tax proposal.

Have you proceeded any further than last year?

Secretary REGAN. Yes; we are progressing on it, and we are studying the various effects and doing the "what ifs" to see where we would go. As a matter of fact, I think we are practically on a two-track system with Senator Bradley and Representative Gephart because they also seem to be coming along more or less on the same track.

If I may say so, Senator, at this point I am convinced there is no such thing as a flat tax. If anything, in simplification of the tax system, you are going to have to have a modified system. If you take a pure flat tax and try to get the same amount of revenue as we are now getting, you would have to come in somewhere around 18 or 19 percent. That would mean that a lot of citizens would have their taxes raised. We cannot have that.

So obviously you have to start by saying you will have one step, and then a step for larger incomes. So it will not be a true flat tax.

While we are trying to study it from an economic and financial point of view, we also have to be aware of the political ramifications, and we recognize that there is no way that you could come up with such a thing and not have some deductions. The original flat tax proposal would have no deductions whatsoever, but you are not going to be able to do that.

Well, I will just give you a name: charities. There is no way that you are going to be able to say that no one can have a deduction for any amount they give to a church, a synagogue, a hospital, a museum, what have you, or college or university. So you are going to have to have some type of charitable deduction.

So again, you will not have a flat tax with no deductions. You will have a modified-step tax with some deductions, and we are now trying to balance off which ones would have to be retained to see where we arrive.

Senator DECONCINI. Mr. Secretary, you read Professor Hall's and Professor Rebuska's book?

Secretary REGAN. Yes, I have.

Senator DECONCINI. Have you had an opportunity to check what their view was on the amount of deductions given because of charitable gifts, because of deductions, and how much money goes to church? I do not have the book here in front of me.

Secretary REGAN. No; I do not remember that.

Senator DECONCINI. It was substantial, the amount of cash given to churches. That is the biggest contribution made that is never itemized. I was amazed, assuming their analysis is correct, how small a problem that is.

Secretary REGAN. Well, from the point of view of churches, that may well be. But if you have been reading the Washington Post, you know that the Smithsonian, for example, has been receiving quite a few charitable gifts.

Senator DECONCINI. Yes, indeed, and as you know, very questionable as to the value, which only leads you to a conclusion that maybe it is time we cut out some of that nonsense.

Secretary REGAN. Well, that is what I am suggesting, that we can cut back on some, but you cannot cut back on all charitable contributions. I think that private universities and colleges, hospitals, people of that nature are dependent to a great extent for their funds.

Senator DECONCINI. Well, you know, I have no trouble if we could keep just the charities, but it seems to me, and maybe you disagree, that if you really talk about a new tax system and you leave somebody's deduction there, you are going to have a hard time taking away the pistachio nut growers or the citrus growers or the oil drillers or somebody else's deduction.

Secretary REGAN. Oh, yes. If you say that we should help the building industry and promote the idea of every American owning a home by having deductions for interest on mortgages, shouldn't you also think that, well, we need to produce oil and, therefore, we have to give depletion allowances.

Senator DECONCINI. Exactly. I take it you think the political practicalities overweigh the argument that if you are really going to try to eliminate deductions, you have got to do them all?

Secretary REGAN. It is going to be very difficult. Well, let's take the subject under review on the floor of the Senate today: withholding. There we are not even trying for a new tax or a deduction. We are just trying to collect what is due to us, and we are getting rolled by a massive lobby on this.

Senator DECONCINI. Well, I would love to get into that, Mr. Secretary. You know, that, to me——

Secretary REGAN. I do not wish to engage in a debate. We both know each other's positions, but I merely use that as an illustration of where a high-powered lobby will change things, and I suspect that when we once engage in the flat tax discussion, that the lobbies are really going to gear up for this one.

Senator DECONCINI. I am, too, and that is why from this Senator's conclusion, if you look at the Rebuska-Hall approach, and it is maybe impractical, it seems to me, that when you get down to it, it is the only way to go so you do not have to worry about day care mothers and their lobbying group saying, "Well, gee, our expenses should be deductible." And then you do not have to worry about the oil drillers.

REVENUE LOST TO THE GOVERNMENT

There is one other thing I wanted to ask you. Time Magazine about 2 weeks ago had quite an extensive article on cheating by the American taxpayer and how it had grown, and what have you. I think you told me you read that. One thing I remember in the article is that the IRS Commissioner indicated that $100 billion, in his estimate, was lost in revenue to the Government, to our Government, annually based on people either purposely cheating or underestimating or some just not paying at all. Do you remember that figure, first of all?

Secretary REGAN. Yes, I remember that figure.

Senator DECONCINI. Are you satisfied that there is some accuracy in that figure? I have never seen one that big.

Secretary REGAN. Well, we used approximately that figure in our testimony on TEFRA last year.

Senator DECONCINI. Oh, you did?

Secretary REGAN. We estimated that that is what was being lost. We were comparing that with the budget deficit, in other words, the then budget deficit, saying that if everyone paid every amount of tax that was due, we would not have a budget deficit.

Senator DECONCINI. Now, if that is the case, and you are satisfied with that figure, have you any studies or reviews of what you think it would cost to collect either all of that or a good proportion of it—say, 50 percent of it?

Secretary REGAN. Well, it depends upon the method that is used. I am going to tred lightly here again. If you withhold, as in tips and interest and dividends and the like, that is one cost. If, on the other hand, you do not withhold but try to go after what you think is due, that is an additional cost.

It would be my judgment, and very frankly, a good IRS auditor will probably bring in what, 10 times his or her salary—it is a 1-to-10 ratio—so again, depending on how you want to break that down as to what we could collect, but a lot of that, maybe 15 percent of it, is in organized crime.

Senator DECONCINI. Which you probably will——

Secretary REGAN. We are moving in on that from a different role.

Senator DECONCINI. Yes, you are doing that anyway, I presume.

Secretary REGAN. We are going after that. A lot of that is just moneys that we probably would never be able to track, and this is the so-called cash economy by somebody who does a job, is paid cash for it, small amounts, and neither the payer nor the receiver think they are breaking the law in doing it that way. Let's take the case of a babysitter, and I am not talking here necessarily of a teenager, but an adult, a wife, husband working, does some babysitting. Does that money get reported or not?

Well, I suspect it does not, and how to get after that type of cash economy is really difficult.

TAX COMPLIANCE RELATIONSHIP TO AUDITS

Senator DeConcini. Let me ask you this, and I am not advocating this. I am, like you, walking on delicate ground because nothing irritates Arizona's taxpayers more than audits of the friendly IRS, but that same article indicated that if you made over $50,000, I think, the chances of being audited was 4 or 5 percent. If you made $10,000 or less, it was down to 2 percent.

By increasing the audits, does that bring about any more compliance, or have there been any studies or observations based on that approach?

Secretary Regan. Well, I think the more we audit and the more the word gets around in private conversations that a neighbor has been audited or a friend has been audited, something of that nature, we definitely find that compliance does step up. If we were asking for a reduction in IRS overall, that is, not the new positions—we had 5,200 last year, and we are asking for what, another 200 this year?

Ms. Beebe. Two hundred.

Secretary Regan. That is a total of 5,400 new positions that we are putting on. As word of that gets around, we suspect that we will get more compliance.

Ms. Beebe. It is an interesting figure. Of the 5,200 that we brought on in the last fiscal year and this fiscal year, 4,000 went to the collection program where we expected to raise an additional $1.7 billion. We have collected $600 million more by the end of the second quarter than our estimate of what we should have collected by the end of the second quarter, which will raise our original estimate of collections by perhaps as much as $2 billion more than we had originally estimated when Congress gave us those positions last year. Additionally, we applied 1,000 of the 5,200 staff to the most productive audit classes.

We can give you data on the marginal yields against various audit classes.

Senator DeConcini. Yes; I would like to have that.

Ms. Beebe. We can share that.

[The information follows:]

Fiscal year 1984 marginal yield/cost by audit class, Internal Revenue Service

Audit class	*Marginal yield/cost*
Income:	
Individuals:	
Nonbusiness (TPI):	
Under $10,000:	
1040A type	1.15
Non-1040A type	2.60
$10,000 to $25,000:	
Simple	4.91
Complex	3.19

Fiscal year 1984 marginal yield/cost by audit class, Internal Revenue Service—Continued

Audit class	*Marginal yield/cost*
Income—Continued	
Individuals—Continued	
Nonbusiness (TPI)—Continued	
$25,000 to $50,000	3.59
$50,000 and over	3.38
Business (TGR):	
C–Under $25,000	2.78
C–$25,000 to $100,000	2.54
C–$100,000 and over	3.17
F–Under $25,000	1.04
F–$25,000 to $100,000	1.89
F–$100,000 and over	2.18
Total individuals:	
Corporations:	
No balance sheet	4.56
Under $50,000	1.74
$50,000 to $100,000	1.33
$100,000 to $250,000	1.72
$250,000 to $500,000	1.92
$500,000 to $1 million	2.36
$1 to $5 million	4.00
$5 to $10 million	4.88
$10 to $50 million	2.72
$50 to $100 million	5.52
$100 million and over	23.27

SUMMARY

Attached are the results of studies which address the effectiveness of increased audit coverage in raising the level of voluntary compliance. We have included the results of two panel studies which indicate that taxpayers who are examined as a result of being selected for taxpayer compliance measurement program (TCMP) are more compliant in the future than taxpayers not selected for such an audit.

The American Bar Association recently sponsored an invitational conference on income tax compliance. At this conference, Professor Robert G. Mason presented his paper, "A Longitudinal Study of Changes in Income Tax Evasion". In his closing remarks, Professor Mason states that "* * * the evidence is clear that enforcement cannot be weakened if it is to serve as a deterrent * * *. The longitudinal analysis bears out once again the strong incentive of enforcement on compliance."

There appeared to be a general consensus among the participants at this conference, which included members of the bar, Federal and State tax administrators, professors and other academicians in social science and criminal justice systems, and congressional staff members, that the levels of examination and enforcment do have material impact on voluntary compliance.

Effect of a Prior Year TCMP Audit

Background

One of the basic reasons for auditing a taxpayer's return is the belief that this will improve his future compliance. Prior to this time, we have been unable to verify this assumption. In order to test for the existence of any such deterrent effect, a panel of 2,432 returns which had been examined in Cycle 3 of the individual returns phase of TCMP (1969 returns filed in 1970) was selected for re-examination in Cycle 4 (1971 returns filed in 1972). Of these 2,432 returns, 2,169 were identified and re-examined. The loss of 263 returns between the two TCMP cycles is due to a variety of occurrences including (a) marriage and (b) death.

Summary

The analysis of the 2,169 returns examined in both Cycles 3 and 4 was restricted necessarily to three audit classes: Low Nonbusiness (Itemized), Medium Nonbusiness, and Low Business. Especially in the two "low" classes (AGI less than $10,000), results indicate that a prior year audit does have a positive effect on subsequent compliance.[1] The evidence pointing to these conclusions is as follows:

(1) In the face of declines in voluntary compliance for the overall TCMP population between 1969 and 1971, the classes of panel taxpayers showed increased compliance levels. In addition, in each panel class, average tax change decreased while average taxable income increased between cycles. In contrast, during the same time period, average tax change increased in each class for the entire TCMP population.

(2) The class of panel taxpayers with the lowest voluntary compliance in 1969 (Low Business) showed the greatest relative improvement in compliance when re-examined for tax year 1971.

(3) In all panel classes studied, a greater percentage of returns exhibited a decrease in tax change between cycles than exhibited an increase in tax change. The percent with a decrease in tax change between cycles was especially significant for taxpayers with a tax change of $100 or more for tax year 1969.

(4) For the panel taxpayers, the proportion of returns resulting in no-change audits increased between cycles -- dramatically for the two "low" classes, slightly for the third class. At the same time, the no-change rates for the total sample generally decreased.

It can also be concluded that auditing taxpayers who owed no additional tax or were due a refund did not adversely affect future voluntary compliance.

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[1] Throughout this analysis the phrase "tax change" refers to "tax change of $1 or more disclosed by Audit." This is a research standard used for TCMP purposes only and is not intended to have any enforcement meaning.

Approach and Major Findings

For purposes of this study deterrent effect was measured in three ways:

(1) By determining the changes in voluntary compliance for the panel taxpayers and comparing these figures with similar ones developed for the overall sample population. (Voluntary compliance is defined as tax reported as a percentage of tax reported plus tax change.)

(2) By determining the proportion of panel returns with a decrease in tax change between years and contrasting it with that proportion showing an increase in tax change.

(3) By determining the proportion of panel returns with no tax change in the first audit and contrasting it with the proportion showing no tax change for the repeat audit.

Application of these measures to the population of panel taxpayers resulted in the findings which are presented in detail on the following pages. Surtax is excluded from all 1969 panel results, except as indicated, in order to make the 1969 and 1971 results comparable.

1. Overall changes in voluntary compliance and average tax change between cycles.

In the Low Nonbusiness (Itemized) class, the voluntary compliance level for the panel taxpayers increased by 3.4 percentage points (from 89.0% to 92.4%). This is in direct contrast to a decrease in compliance of 3.0 percentage points between cycles for all TCMP taxpayers in this class. The results for the Low Business class follow the same pattern, but with greater differences between cycles. In particular, it should be noted that the Low Business panel taxpayers, who had the lowest compliance in 1969, showed the greatest increase in compliance between 1969 and 1971.

In the Medium Nonbusiness class, the contrast between panel and sample taxpayers is less marked. The panel VCL for this class increased by 0.5 of a percent and the sample VCL decreased by 0.2 of a percent. (See Table I for more detail.)

In addition, in each of the three classes of panel taxpayers average tax change decreased while average taxable income increased. For example, in the Low Nonbusiness (Itemized) class, average taxable income increased by 26% from 1969 to 1971 and at the same time average tax change decreased by 20%. In contrast, in the TCMP sample, each class of taxpayers showed an increase in average tax change during the same time period -- Low Nonbusiness (Itemized) showed a 20% increase in tax change. (See Table II.)

Table I
Voluntary Compliance Levels by Audit Class for TCMP Panel and Sample Returns

Class	Panel Returns CY 1969	Panel Returns CY 1971	Total TCMP Sample CY 1969	Total TCMP Sample CY 1971
	Weighted			
Low Non-business (Itemized)[a]	89.0%	92.4%	88.5%	85.5%
Medium Non-business	96.7	97.2	96.1	95.9
Low Business[b]	73.1	81.0	68.7	63.5

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[a] For this paper, this class has been strictly limited to returns with itemized deductions and AGI less than $10,000. Hence, the VCL's shown for the total TCMP sample in this class differ from the official compliance levels.

[b] See Technical Appendix for explanation of 1969 VCL difference between panel and total TCMP sample in the Low Business class.

Table II
Comparison of Variations in Taxable Income and Tax Change Data from 1969 to 1971 (expressed as a percent of 1969 data)

Class	Panel: Variation In Average Taxable Income	Panel: Variation In Average Tax Change	Total TCMP Sample: Variation In Average Tax Change
	Weighted		
Low Non-business (Itemized)	+26%	-20%	+20%
Medium Nonbusiness	+ 7	-14	+ 6
Low Business	+39	-18	+ 6

NOTE: a. These data include 1969 surtax in order to make the figures for the panel and for the total TCMP sample comparable.

b. Data to compute variation in average taxable income between cycles for the total population have not been received.

2. Changes in voluntary compliance between cycles for returns with a significant tax change in 1969.

As a result of the initial audit of the 1969 returns, 657 panel returns had a positive tax change of $100 or more. In each class, the compliance levels for this group were relatively low, ranging from 50.6% for Low Business to 89.5% for Medium Nonbusiness. The compliance levels for these taxpayers rose sharply between cycles in all classes. (See Table III for complete breakdown by class.)

Table III
Comparison of Voluntary Compliance Levels in 1969 and 1971
by Class for Panel Returns Which Had $100 or More
of Positive Tax Change in 1969

Class	Voluntary Compliance Level	
	1969	1971
	---------Weighted---------	
Low Nonbusiness (Itemized)	71.1%	89.3%
Medium Nonbusiness	89.5	95.8
Low Business	50.6	76.2

3. Variations in tax change between cycles for panel taxpayers on a return-by-return basis.

For each of the three classes of taxpayers included in the panel, a greater proportion of the returns had less tax change in 1971 than in 1969. In particular, as shown in Table IV, for the Low Business class, 48% of the panel taxpayers experienced a decrease in tax change while 37% had an increase in tax change and 15% remained stable. Further, of those Low Business panel taxpayers whose tax change in 1969 was at least $100, 81% showed a decrease in tax change between 1969 and 1971. The results were similar in the other two classes.

Table IV
Percentages of Panel Returns with Increase or
Decrease in Tax Change from 1969 to 1971

Class	Total Panel % With Increase in Tax Change	 % With Decrease in Tax Change	Panel Returns with 1969 Tax Change > $100 % With Decrease in Tax Change
	Weighted		
Low Non-business (Itemized)	35%	53%	74%
Medium Nonbusiness	38	45	87
Low Business	37	48	81

4. Variation in no-change rates between cycles.

The hypothesis that a prior audit has a positive effect on future taxpayer compliance is further upheld by comparing the no-change rates in the two surveys for the panel taxpayers. In all panel classes, the no-change rates increased between cycles. The greatest increases occurred in the two "low" classes with AGI less than $10,000 During the same time period, the trend of the no-change rates for the overall TCMP population was generally downward. (See Table V for more detail.)

Table V
Percentages of TCMP Panel and Total Sample Returns
with No Tax Change in 1969 and 1971

Class	Panel 1969	 1971	Total TCMP Sample 1969	 1971
	Weighted			
Low Nonbusiness (Itemized)	21%	40%	24%	19%
Medium Nonbusiness	33	34	32	30
Low Business	28	39	30	31

5. Effect of a no-change or negative change audit on future compliance.

In the final portion of the analysis, attention was directed toward those panel taxpayers who experienced either a no-change or a negative change audit in 1969. In each class, these 844 taxpayers exhibited higher compliance levels in 1971 than did the total panel population. (See Table VI for a class-by-class comparison.) Such a finding is reassuring as it indicates that a TCMP-type audit which results in no change in tax liability or in a refund to the taxpayer does not have an adverse effect on taxpayer behavior.

Table VI
Comparison of 1971 Voluntary Compliance Levels for Returns with No Tax Change or Negative Tax Change in 1969 Versus the Total Panel

Class	1971 Voluntary Compliance Levels Returns with No Change or Negative Change in 1969[a]	 Total TCMP Panel
	---Weighted---	
Low Non-business (Itemized)	94.2%	92.4%
Medium Nonbusiness	98.3	97.2
Low Business	88.1	81.0

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[a] Excluding one return in low business which had no change in 1969 and positive change of $102,000 in 1971.

Technical Appendix

Design of the Panel Sample

It was originally intended to have a panel composed of returns from all individual audit classes. However, because of budgetary restrictions, it was necessary to restrict Cycle 4 to those 1040-type audit classes with the highest volume of returns or the most severe compliance problems.

This resulted in reducing the anticipated panel size from 6,430 to 2,430[1] returns. Matched panel returns (those panel returns examined in both Cycles 3 and 4) numbered 2,169 and represented almost 36 million returns on a weighted basis. (See Table A-1.)

Table A-1
Number of Panel Returns by Audit Class

Class	Anticipated Sample Size	Matched Panel Size	Average Weight	1969 Population Size (in Millions)
Low Non-business (Itemized)	670	574	22,650	13.0
Medium Nonbusiness	530	492	35,770	17.6
Low Business	1,230	1,103	4,620	5.1
Total	2,430[1]	2,169	16,460	35.7

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[1] 2,432 returns were actually selected.

Comparability between Cycle 3 Sample and Panel Results

The voluntary compliance levels (VCL) for the matched panel returns are higher than those for the full TCMP sample in Cycle 3 (especially in the Low Business class, as shown in Table I). To test the hypothesis that the reason for these differences is that the panel members who did not file in Cycle 4 had low Cycle 3 compliance, an analysis of 1969 panel VCL was made including 231 of the 263 returns missing from Cycle 4 for which 1969 data were readily available. The results indicate that the 1969 panel VCL's decline in each class when the unmatched panel members are added to the matched Cycle 3 panel.

This point is illustrated in Table A-2 (compare columns 2 and 3). In particular, panel and total sample VCL's for the Low Business class become much closer after this adjustment is made (compare columns 1 and 3 with column 4).

Table A-2
1969 Voluntary Compliance Levels by Audit Class

Class	Matched Panel	Matched Panel Including Surtax	Total Panel 1/ Including Surtax	Total TCMP Sample Including Surtax
	----------Weighted----------			
Low Non-business (Itemized)	89.0%	88.9%	86.3%	88.5%
Medium Nonbusiness	96.7	96.7	94.9	96.1
Low Business	73.1	72.7	70.6	68.7

1/ Excluding 32 returns for which information is not readily available.

Effect of a Prior Year TCMP Audit (Second Panel)

Background

A basic assumption about taxpayer compliance is that the auditing of a taxpayer's return will lead to an improvement in his/her compliance in subsequent years. The 1971 TCMP Panel Study verified that this was indeed the case; taxpayers whose returns had been audited under TCMP displayed a marked improvement in compliance when their returns were examined two years later. For the four examination classes not covered in the 1971 Panel Study, a second panel study was conducted based on returns filed in 1969 and 1973. This effort provided a look at the long-term effect of an audit on subsequent compliance. A panel (sample) of 4,000 taxpayers whose returns had been examined in Cycle 3 of TCMP Phase III (1969 individual returns filed in 1970) was selected for re-examination in Cycle 5 (1973 returns filed in 1974). Of the 4,000 returns, 3,331 returns were successfully identified and examined in the 1973 TCMP Panel Study. The loss of 669 returns over the four-year span may have been due to such factors as marriage and death.

Of the 3,331 panel returns examined in the second panel study, 1,433 (43%) reflected that the taxpayers had changed examination classes between 1969 and 1973. For purposes of this study, these panel taxpayers were assumed to have remained in their original 1969 examination classes. 1/ The "control groups," with which the panel taxpayers were compared, consisted of those taxpayers who made up the particular examination classes in 1969 and/or 1973. Thus, while a longitudinal analysis was conducted on the panel taxpayers, the same approach was not used for the "control groups." Although this disparity would have been at least partially eliminated by excluding the 1,433 non-stationary taxpayers, to do so would have greatly reduced the reliability of the data.

Whether this approach affected the results of the second panel study is unknown. This methodology was also used in the earlier panel study. However, in that case there was less cause for concern. Fewer taxpayers (30%) had changed classes in the two-year interval and, hence, the "control group" and the panel taxpayers were more closely aligned.

Summary.

The analysis of the 3,331 returns examined in both Cycles 3 and 5 was restricted to four audit classes: 1040A-type Nonbusiness, High Nonbusiness, Medium Business and High Business. The previous TCMP Panel Study which examined changes from Cycle 3 to Cycle 4 included taxpayers from the other three audit classes: Low Nonbusiness (Itemized), Medium Nonbusiness and Low Business. Results from the 1973 TCMP Panel Study indicate that a prior year audit does have a "beneficial" effect on subsequent compliance, although the effect is not so dramatic as it was for the 1971 TCMP Panel Study. 2/ The 1973 Panel Study showed that:

(1) In the classes where voluntary compliance for the overall TCMP population dropped between 1969 and 1973, the panel taxpayers experienced either a smaller decline or an increase in compliance levels. 3/ In the class where compliance levels rose for the overall TCMP population (High Nonbusiness), the panel returns showed a slightly larger increase in voluntary compliance. In addition, in each class except High Business, average tax change (adjusted for changes in taxable income) for panel returns decreased more or increased less than for the general population of TCMP sample returns.

(2) Compliance levels in three return classes rose dramatically between Cycle 3 and Cycle 5 for those panel taxpayers with a positive tax change in 1969 of $100 or more. In all panel classes, more than three-fifths of those taxpayers with $100 or more positive tax change in 1969 showed decreases in tax change betweeen 1969 and 1973.

1/ See Technical Appendix for further details and a class-by-class breakdown.

2/ Throughout this analysis the phrase "tax change" refers to "tax change of $1 or more disclosed by Examination." This is a research standard used for TCMP purposes only and is not intended to have any enforcement meaning.

3/ Note: In order to maintain comparability with the 1971 Panel Study, the original definition of compliance was used: tax reported as a percent of total tax liability, where total tax liability equals tax reported plus absolute tax change.

(3) For all audit classes but the 1040A-type Nonbusiness return class, the percentage of returns with no tax change declined between Cycles 3 and 5 less rapidly for the panel returns than for the TCMP population.

(4) In three of the four panel classes, those panel taxpayers having no tax change or a negative tax change in 1969 showed higher compliance levels in 1973 than the overall panel taxpayers. In the fourth class, compliance levels were equal. This indicates that auditing taxpayers who owed no additional tax or who were due refunds did not adversely affect their subsequent voluntary compliance when compared to the compliance behavior of all panel taxpayers.

Although the results of the 1971 and 1973 Panel Studies are similar, the results of the second panel study are not so markedly positive as those from the first study. There are many possible reasons for this. The additional time lapse between examinations for tax years 1969 and 1973 may account for all or part of the lower levels of compliance for the second panel study. However, it should be noted that this explanation cannot be verified because none of the classes studied in the first panel was repeated in the second. This difference in classes studied may also be significant. With the exception of the 1040A-type class, the taxpayers in the second panel would have filed generally more complex returns than those in the first panel. This could account for some of the difference in deterrent effect. Also, as noted in the Technical Appendix, almost half of the 1973 panel had changes in AGI and/or other factors which would have resulted in a change in audit class from their 1969 classification. However, to avoid increasing the variability of the data, each of these 1,433 taxpayers was assumed to have stayed in his/her original audit class. This assumption leads to less homogeneity within the class and may have contributed to the less dramatic findings.

Approach and Major Findings

For purposes of this study deterrent effect was measured in four ways:

(1) By determining the changes in voluntary compliance and average tax change for the panel taxpayers and comparing these figures with similar ones developed for the overall sample population. (Voluntary compliance is defined as tax reported as a percentage of tax reported plus absolute tax change.)

(2) By determining the proportion of panel returns with a decrease in tax change between years and contrasting it with that proportion showing an increase in tax change.

(3) By determining the proportion of panel returns with no tax change in the first audit and contrasting it with the proportion showing no tax change for the repeat audit.

(4) By determining voluntary compliance for panel taxpayers who had no tax change or who received a refund as a result of the prior year audit and comparing these figures with overall panel compliance.

Application of these measures to the population of panel taxpayers resulted in the findings which are presented in detail on the following pages. Surtax is excluded from all 1969 panel results, except as indicated, in order to make the 1969 and 1973 results comparable.

1. Overall changes in voluntary compliance and average tax change between cycles.

The panel returns in the Medium Business class, which had the lowest compliance levels in 1969, showed the greatest increase in compliance between 1969 and 1973 relative to the TCMP sample. The panel voluntary compliance level (VCL) rose by one-half of a percentage point, while the VCL for all taxpayers in this class fell 1.8 percentage points.

In the 1040A-type class, the voluntary compliance level for the panel taxpayers decreased by 0.4 percentage points (from 97.0% to 96.6%). On the other hand, compliance fell 2.6 percentage points for all TCMP taxpayers in this class. The results for the High Business class displayed a similar pattern, although the declines between cycles were less in this class.

In the High Nonbusiness class, panel compliance rose by 1.3 percentage points, compared with a slightly smaller gain of 1.1 points for the overall population in this class. (See Table I for additional details.) 4/

TABLE I

Voluntary Compliance Levels by Examination Class for TCMP Panel and Sample Returns

Class	Panel Returns TY 1969	Panel Returns TY 1973	Total TCMP Sample TY 1969	Total TCMP Sample TY 1973
	Weighted			
Nonbusiness				
1040A-type	97.0%	96.6%	96.3%	93.7%
High	93.8	95.1	94.1	95.2
Business				
Medium	90.2	90.7	87.8	86.0
High	91.7	91.5	91.2	90.6

Note: $\text{VCL} = \dfrac{\text{Total Tax Reported}}{\text{Total Tax Liability}} = \dfrac{\text{Total Tax Reported}}{\text{Total Reported} + |\text{Tax Change}|}$

In each of the four classes of taxpayers, average tax change appeared initially to have increased more between Cycles 3 and 5 on panel returns than on all TCMP sample returns. However, further analysis showed that between 1969 and 1973 the average taxable income of panel taxpayers also increased more (or decreased less) relative to the average taxable income of the TCMP population. (See Table II-A.) To take this into account, tax change was expressed as a fraction of taxable income reported. Adjusting for income variations in this way, the data showed that the variation in panel taxpayers' tax change was smaller relative to variations in the entire sample's tax change in two of the four audit classes. While tax change as a fraction of taxable income rose 60.3% for the population of 1040A-type taxpayers, it rose only 15.2% for panel

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4/ For the panel returns which did not change audit classes between 1969 and 1973, compliance rose (or remained stable) for all classes except the Medium Business class. The 1973 VCL's for each panel class were: 1040A-type, 97.5%; High Nonbusiness, 96.0%; Medium Business, 88.2%; High Business, 92.3%.

taxpayers in that class. In the Medium Business class, the panel's tax change fraction decreased 4.2% between cycles, while it rose 6.6% for the overall population. For the remaining two classes the results were mixed. In the High Nonbusiness class, tax change as a fraction of taxable income dropped similarly for both groups (-27.6% for the panel and -28.6% for the population). In the High Business class, the tax change fraction fell only 1.6% for the panel while the overall population showed a decline of 6.8%. (See Table II-B for details.)

TABLE II-A

Comparison of Variations in Taxable Income and Tax Change Data from 1969 to 1973 (expressed as a percent of 1969 data)

	Panel		TCMP Survey	
Class	Variation in Average Taxable Income Reported	Variation in Average Tax Change	Variation in Average Taxable Income Reported	Variation in Average Tax Change
	Weighted			
Nonbusiness				
1040A-type	103.1%	125.0%	-4.9%	50.0%
High	-8.4	-33.6	-10.3	-36.0
Business				
Medium	30.8	25.2	0.3	7.0
High	0.4	-1.3	-5.8	-12.3

(Note: Panel figures include 1969 surtax to make TCMP figures comparable.)

TABLE II-B

Variations of Tax Change as a Percentage of Total Taxable Income Reported from 1969 to 1973

	Panel Returns			TCMP Survey		
	Tax Change as % of Taxable Income Reported		Variation of Fraction 1/ (as % of 1969 data)	Tax Change as % of Taxable Income Reported		Variation of Fraction 1/ (as % of 1969 data)
Class	1969	1973		1969	1973	
	Weighted					
1040A-type	0.55%	0.64%	15.2%	0.70%	1.12%	60.3%
High	2.98	2.16	-27.6	2.88	2.05	-28.6
Business						
Medium	2.55	2.44	-4.2	3.24	3.45	6.6
High	3.51	3.46	-1.6	3.72	3.47	-6.8

1/ "Fraction" means "tax change as percent of taxable income reported."

2. Changes in voluntary compliance between cycles for returns with a significant tax change in 1969.

As a result of the initial TCMP audits of the tax year 1969 returns, 1,481 panel returns showed a positive tax change of $100 or more. An analysis of compliance levels for these same taxpayers after the second audit showed a definite deterrent effect. For both Nonbusiness classes examined, the voluntary compliance levels rose markedly — 19.3 percentage points for 1040A-type and 6.0 percentage points for High Nonbusiness. Compliance increased by a smaller amount (4.9 percentage points) for panel returns in the Medium Business class, while in the High Business class the VCL of these panel taxpayers remained virtually unchanged, increasing only one-tenth of a point. (See Table III.)

TABLE III

Comparison of Voluntary Compliance Levels in 1969 and 1973
by Class for Panel Returns which had $100 or more of
Positive Tax Change in 1969

Class	Voluntary Compliance Levels 1969	Voluntary Compliance Levels 1973
	Weighted	Weighted
Nonbusiness		
1040A-type	72.7%	92.0%
High	89.1	95.1
Business		
Medium	82.3	87.2
High	88.0	88.1

Note: $$\text{VCL} = \frac{\text{Total Tax Reported}}{\text{Total Tax Liability}} = \frac{\text{Total Tax Reported}}{\text{Total Reported} + |\text{Tax Change}|}$$

3. Variations in tax change between cycles for panel taxpayers on a return-by-return basis.

For none of the four classes of panel taxpayers was there a significantly greater proportion of returns with less tax change in 1973 than in 1969. As Table IV shows, a smaller proportion of panel taxpayers filing 1040A-type returns had a decrease in tax change between cycles than had an increase in tax change, while a greater proportion of those filing Medium Business returns had a decrease. In the two remaining classes roughly the same proportion of returns had increases in tax change as had decreases. However, in every audit class, between 67 and 92 percent of the returns which had a tax change of at least $100 in 1969 had less of a tax change in 1973. (See Table IV for breakdown by class.)

TABLE IV

Percentages of Panel Returns with Increases or Decreases in Tax Change from 1969 to 1973

Class	Total Panel		Panel Returns with 1969 Tax Change ≥ $100
	% with Increase in Tax Change	% with Decrease in Tax Change	% with Decrease in Tax Change
	Weighted		
Nonbusiness			
1040A-type	20.9%	11.9%	91.5%
High	44.2	44.1	74.7
Business			
Medium	43.3	49.5	71.8
High	44.9	45.4	66.6

4. Variation in no-change rates between cycles.

The percentage of returns with no tax change decreased between 1969 and 1973 for three classes of panel taxpayers and for all four classes of the overall population. The exception was the Medium Business class where the panel no-change rate increased one-half of a percentage point. Despite these declines, however, there is some evidence of deterrence. Specifically, in the High Business and High Nonbusiness classes, the percentage of returns without a tax change decreased less rapidly for the panel than it did for the overall population. Only the 1040A-type return class, where the no-change rate dropped 12 percentage points for panel taxpayers and 2.1 percentage points for the population, showed lack or deterrence. (See Table V for further details.)

Table V

Percentages of TCMP Panel and Total Sample Returns With No Tax Change in 1969 and 1973

Class	Panel		Total TCMP Sample	
	1969	1973	1969	1973
	Weighted			
Nonbusiness				
1040A-type	87.2%	75.2%	85.4%	83.3%
High	35.7	30.5	34.5	27.0
Business				
Medium	22.9	23.4	23.4	16.6
High	27.2	25.3	25.1	18.5

5. Effect of a no-change or negative change audit on subsequent compliance.

In the final portion of the analysis, attention was directed toward those 1,512 panel taxpayers who experienced either a no-change or a negative change in tax liability as a result of the

1969 audit. In three of the four classes, these taxpayers displayed higher compliance levels in 1973 than the total panel population. In the fourth class (High Nonbusiness), these taxpayers showed the same compliance level in 1973 as the total panel. (See Table VI for a class-by-class comparison.) Such a finding is reassuring in that it indicates that TCMP-type audits which resulted in nochange in liability or in a refund to the taxpayers did not have an adverse effect on their compliance behavior, relative to the behavior of all panel taxpayers.

TABLE VI

Comparison of 1973 Voluntary Compliance Levels for Panel Returns With No Tax Change or Negative Tax Change in 1969 Versus the Total Panel

	1973 Voluntary Compliance Levels	
Class	Returns with No Change or Negative Change in 1969	Total Panel Returns
	Weighted	
Nonbusiness		
1040A-type	96.9%	96.6%
High	95.1	95.1
Business		
Medium	94.3	90.7
High	96.0	91.5

Note: $\text{VCL} = \dfrac{\text{Total Tax Reported}}{\text{Total Tax Liability}} = \dfrac{\text{Total Tax Reported}}{\text{Total Reported} + |\text{Tax Change}|}$

Technical Appendix

Design of the Panel Sample

Since the 1971 Panel Study covered returns in the Low Nonbusiness (Itemized), Medium Nonbusiness and Low Business classes, the 1973 study focused on the remaining four classes. The plan for this second panel called for selecting and examining the TY 1973 returns of 4,000 taxpayers whose TY 1969 returns had already been examined in an earlier TCMP survey (Phase III, Cycle 3). During the actual matching process, returns filed by 669 of the original taxpayers could not be located. Hence, the final panel included only 3,331 returns for TY 1973. (See Table A-1 for breakdown by class.)

Changes in Audit Classes Within the Panel Sample

As indicated in the report, 1,433 (43%) of the 3,331 panel taxpayers had experienced changes in AGI and/or other factors during the period from 1969 to 1973 which resulted in a change of audit class designation. Ideally these taxpayers should have been eliminated from the analysis; however, to do so would have resulted in a reliability problem due to the reduced sample size. (For a class-by-class comparison, see Table A-2.) For this reason the analysis was based on all 3,331 returns and all taxpayers were categorized according to their 1969 audit class designations. Ignoring the reliability problem, it would appear that including all taxpayers in their original classes clouded the issue of deterrence as measured by changes in compliance. For comparison purposes, the compliance levels of the stationary taxpayers are shown in Table A-3.

TABLE A-1

Number of Panel Returns by Audit Class

Class	Anticipated Sample Size	Matched Sample Size	Average Weight	1969 Population (in millions)
Nonbusiness				
1040A-type	790	427	43,034.357	18.4
High	830	781	323.361	0.3
Business				
Medium	1,070	914	2,620.342	2.4
High	1,310	1,209	304.715	0.4
Total Panel	4,000	3,331		21.5

TABLE A-2

Number of Panel Returns Which Did Not Undergo a Change in Audit Class

Class	Total Matched Panel Size	Number with No Change in Class	% with No Change
Nonbusiness			
1040A-type	427	242	56.7%
High	781	536	68.6
Business			
Medium	914	443	48.5
High	1,209	677	56.0
Total Panel	3,331	1,898	57.0

TABLE A-3

Comparison of Voluntary Compliance Levels for Stationary Panel Taxpayers with Total Panel

Class	Panel Returns with No Change in Class Between Cycles		All Panel Returns	
	TY 1969	TY 1973	TY 1969	TY 1973
	Weighted			
Nonbusiness				
1040A-type	95.7%	97.5%	97.0%	96.6%
High	93.8	96.0	93.8	95.1
Business				
Medium	90.9	88.2	90.2	90.7
High	92.1	92.3	91.7	91.5

MAINTAINING MINIMUM IN AUDIT CLASS

Senator DECONCINI. Because I assume you go after the more productive audit classes. You do not try to audit the babysitter or the waitress or what have you as much as you do business deductions or farm—excuse me—or some other part of our economy.

Ms. BEEBE. We do two things. We try to maintain a minimum presence in every audit class, and then add additional resources to the most productive classes.

Senator DECONCINI. Unless it is classified, what is a minimum audit?

Ms. BEEBE. There are no minimum percentages of audit coverage per se. The figures are based on a complex system which includes mathematical formulas to maximize yield and to provide additional revenue among those classes of taxpayers who are least compliant.

Secretary REGAN. It is like the presence in the $10,000 category is 1.04 percent.

Senator DECONCINI. One, point, zero, four.

Secretary REGAN. But it steps up rather sharply.

Senator DECONCINI. Now, is it broken down by other than income categories? Is it broken down by professions or businesses?

Secretary REGAN. Well, the IRS has a terminology called simple and complex. They do not distinguish among professions, but the type of return.

Senator DECONCINI. Is there a simple return?

Secretary REGAN. The EZ return that we devised has been very successful. Thirteen million taxpayers have used it so far.

Senator DECONCINI. Out of 96 million?

Secretary REGAN. Out of about 73 million filed so far, through April 15, but that is 13 million that otherwise would be having more trouble.

Ms. BEEBE. You have probably seen it.

Senator DECONCINI. I have seen it.

Ms. BEEBE. But the advantage of the form is that it is so much easier to process than the old form so that we are making considerable economies in our service centers. Our FTE requirements are considerably down here. Many more filers have used it than expected.

We define generally a simple form as a nonitemized form.

Senator DECONCINI. I see.

Ms. BEEBE. And a complex one is an itemized form, and then we have different classes of business by the income.

Senator DECONCINI. Well, it is a very interesting issue. I thank you, Mr. Secretary.

Secretary REGAN. I suspect we will be auditing brokers more than ever this year because they are so prosperous.

Senator DECONCINI. I appreciate your thoughts on it. I have become such a believer in the Rebuska approach after looking at it carefully and having a couple of tax experts look at it and conclude that it may be the only way you are ever going to change it.

Secretary REGAN. It is very tempting.

I have used this in speeches, and I think it is absolutely true, I believe.

Senator DECONCINI. I am sure you remember the postcard-type return.

Secretary REGAN. Yes.

Senator DECONCINI. Only two, one for individual and one for business.

Secretary REGAN. Well, this is a little side part to my testimony, but a group of former Secretaries of Treasury meet occasionally and always when there is a new Secretary of the Treasury, and one thing I found out from talking to them, that all of them, regardless of party, the longer they stay in office, the more they are for a simplified tax system.

Senator DECONCINI. Mr. Secretary, thank you.

Thank you, Mr. Chairman, for your indulgence.

Senator ABDNOR. Well, Mr. Secretary, you have been very generous with your time, and we appreciate it. We have had you here for 1½ hours. We know you are very, very busy. But nevertheless, this has been very helpful, and we appreciate it. You, too, Ms. Beebe and Mr. Kallen, for coming.

If we have any additional questions—and I am sure we will think of something—we will probably put it in writing.

SUBCOMMITTEE RECESS

We will be meeting again at 9:30 Monday, April 25, in SD–192, and we are going to receive testimony from Members of Congress, the Customs Service, and the National Treasury Employees Union.

Incidentally, they are firmly convinced that additional manpower makes more dollars. What was it they were saying? We had a request for 9,500 additional employees yesterday. So you are a piker when it comes to asking.

The subcommittee stands in recess.

[Whereupon, at 3:40 p.m., Thursday, April 21, the subcommittee was recessed, subject to the call of the Chair.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1984

WEDNESDAY, APRIL 27, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:10 a.m., in room S-126, the Capitol, Hon. James Abdnor (chairman) presiding.

Present: Senators Abdnor, DeConcini, and Mattingly.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF DAVID A. STOCKMAN, DIRECTOR

ACCOMPANIED BY:

DAVID GERSON, ASSOCIATE DIRECTOR

CANDICE BRYANT, DEPUTY ASSOCIATE DIRECTOR FOR ADMINISTRATION

PREPARED STATEMENT

Senator ABDNOR. The meeting will come to order.

We are going to continue our hearings on the 1984 budget with our distinguished guest, the Honorable David Stockman, who has submitted a request for the OMB and the unanticipated need of the Office of the President.

Let us go right from there, David.

Mr. STOCKMAN. Thank you very much.

I have a statement. I will submit that for the record.

[The statement follows:]

STATEMENT OF DAVID A. STOCKMAN

I appreciate the opportunity to appear before you this morning to discuss the fiscal year 1984 budget request for the Office of Management and Budget (OMB), as well as our fiscal year 1983 supplemental requests. I would like to introduce OMB's Deputy Director Joseph R. Wright, Associate Director David Gerson, and Deputy Associate Director for Administration Candice C. Bryant, who are accompanying me today.

The mission of OMB is to advise the President on budgetary, legislative, regulatory, and management policies—and to do so in a cost efficient and effective manner. After careful consideration of OMB's past performance and future role, the President is requesting $39,643,000 in 1984 for OMB to carry out this mission.

Ninety percent of this request (or $35,861,000) is for personnel compensation and benefits, payments to GSA for office space, printing costs for the President's budget, and data and word processing.

Two percent of this request ($675,000) is to carry out OMB's operational responsibilities under the Federal Program Information Act (Public Law 95–220). As you know, this act requires OMB to collect and disseminate information on federally-funded domestic assistance programs. These responsibilities are performed through the publication of the catalog of Federal domestic assistance and the maintenance of the computerized Federal assistance program retrieval system (FAPRS).

If legislation pending before the Congress is enacted to transfer the production aspects of these responsibilities from OMB to the General Services Administration, OMB's budget will be reduced to reflect the transfer of functions. OMB, however, would continue to maintain oversight responsibility for the catalog functions.

The remaining 8 percent of the 1984 request provides funds for staff travel and training, telephone service, utilities, background investigations, equipment, and general office supplies.

The 1984 request for OMB is 13 percent (or $4.7 million) above the 1983 requested level of $34,987,000. This 1983 level is based on: our enacted 1983 appropriation of $33 million; a requested 1983 program supplemental of $669,000 to finance the domestic catalog and FAPRS operations; and requested 1983 pay supplementals of $1,318,000, covering the October 1982 general schedule pay increase, the December 1982 Executive pay raise, and the new medicare tax. Unfavorable action on the $1,987,000 requested in these supplemental appropriations would require a massive reduction in our current on-board personnel strength.

The requested fiscal year 1984 increase is required in part because of the large reductions OMB has taken in the past. OMB's enacted 1983 appropriation is more than $500,000 below its 1982 operating level. As I will outline in more detail later, discretionary spending has been cut to the bare minimum and many authorized positions have been left vacant to accommodate this reduction. While we have been able to cope with these cuts thus far, continued operation at this level will severely hamper our ability to fulfill our mission.

Sixty-two percent (or $2.9 million) of the requested fiscal year 1984 increase over 1983 is for uncontrollable increases in standard level user charges (which are scheduled to rise by $2.5 million or 125 percent in 1984) and for annualization of fiscal year 1983 pay raises.

The balance of the fiscal year 1984 increase ($1.8 million) is to fund 10 positions that have remained vacant over the past year; to provide additional resources for staff travel and training; to improve our data and text processing capabilities; to reduce the backlog in updating background investigations; and to offset inflationary cost increases for leases and service contracts that OMB has fully absorbed during the past 3 years.

In real terms, OMB's 1984 budget request is 8 percent below its 1980 operating level and about the same as its 1981 operating level. Because total resources have been diminishing in real terms, spending for everything other than personnel compensation has been reduced significantly to preserve our staff resources. In fact, nonpersonnel expenditures have declined by 38 percent in real terms since 1980.

Last year, we curtailed expenditures significantly by: reducing the use of temporary personnel by $731,000 or 56 percent; reducing office space by 18,000 square feet; reducing staff travel by 79 percent; virtually eliminating training; imposing restrictive personnel replacement policies; reducing expenditures for equipment leases, communications lines, and utilities by $379,000 or 19 percent; reducing printing costs by $370,000 or 22 percent; reducing contractual services (including ADP support) by $737,000 or 23 percent; and reducing supplies and equipment purchases by $444,000 or 44 percent.

Many of these constraints are still being imposed despite steady increase in workload. In 1984, the average OMB budget examiner will be responsible for approximately $4.6 billion in Federal outlays as compared to an average load of $3.5 billion in 1981. Other examples of workload increases from 1981 to the present include the following: The number of major rules reviewed for regulatory impact analysis has increased 100 percent; the number of congressional and public letters received has risen 25 percent; and the number of paperwork clearances has increased by 33 percent.

To increase producitivity and maintain our effectiveness in the midst of fiscal constraints, we have instituted significant changes in our internal management procedures. Greater authority has been delegated to our career managers to make resource allocation decisions. We have decentralized decisionmaking for more than 82 percent of our budget resources. This process has been designed to provide financial incentives to managers to reduce space, grade levels, and overtime costs.

Even with these changes, the resources requested for OMB in 1983 and 1984 are required to insure that we are able to serve the President effectively and efficiently. Failure to receive these funds would severely disrupt our operations. Therefore, I strongly encourage your favorable action on our requests. I would be happy to answer any questions you may have.

INTRODUCTION OF ASSOCIATES

Mr. STOCKMAN. I have with me David Gerson who is Associate Director and Candice Bryant who is Deputy Associate Director for Administration.

What I would like to do is quickly summarize what we have in the statement and then answer your questions on our budget and I am sure there are others that you will want to raise.

Mr. Chairman, we have requested $39.6 million for 1984, which compares to a 1983 request that we have before you of $35 million. The 1983 request of $35 million consists of $33 million that you appropriated in the CR, plus a requested program supplemental of $669,000 for the operations of the domestic catalog. Due to an inadvertent error, funding for the catalog was not requested for GSA or OMB. This supplemental is important, and it is needed.

In addition, the 1983 request includes $1.3 million for the October 1982 general schedule pay increase, the Executive pay increase, and the medicare tax that began this year.

So if you look at our increase—from $35 million in 1983 to $39.6 million in 1984, I would point out that 62 percent of it, or nearly $3 million, is due to totally uncontrollable items. The biggest, obviously, is the SLUC increase. We are recommending Government-wide that we go back to the SLUC schedule for 1984. In our case, that is $2.5 million due to a major increase in the square-footage charge for the New Executive Office Building where most of our staff are housed.

In addition, we are requesting $1.7 million for a variety of other activities that we had to cut back drastically during 1982 because of the 16-percent cut we absorbed and have continued to constrain during 1983, because we have been operating at a level of $500,000 below the level we had for 1982. This includes funds for staff travel, which is one of the things we need to do to make sure we are treating all of the agencies correctly. We think it is important to get our staff out to the field level and to observe and analyze the operations of the Customs or any other agencies that you might be concerned with. We have not been able to do that at the levels we previously did. In fact, there was almost no travel in 1982 and we have held it down severely this year as well.

Also, we have been able to buy very little equipment in the last 2 years and one of the things I found when I came into this position was that OMB, despite its Government-wide budget activities and a Federal budget of $850 billion, was totally in the Dark Ages when it came to computers and interactive systems that would allow us to analyze and process budget information within the agency.

So we have to have a major upgrade in this area, and it will cost money.

Those are two reasons for the increase but I would, nevertheless, point out that if you look at this in terms of the fact that 90 percent of our budget is for personnel and directly related costs for equipment, printing of the President's budget and space—there has been a substantial reduction in purchasing power in the OMB over the last 3 or 4 years. If you compare it to 1980, our request for 1984 is 8 percent lower in constant dollar terms. If you compare our 1983 budget to 1981, it is about 16 percent lower in real terms.

Nevertheless, there has been a continuing substantial expansion of our activities, of our output, of our workload. I think I went through some of that last year with the committee and I will touch on it today.

Because of this rather substantial shrinkage in available real dollars in this highly personnel-intensive agency that provides mainly analysis and advice as staff to the President, we have had to have some fairly Draconian cuts in everything except salaries over the last 18 months or so. We have cut temporary personnel by 56 percent and reduced office space by 18,000 square feet—a substantial reduction. In 1982 we reduced travel by 79 percent, simply because the money was not there. That has led to some lapse in terms of what we should be doing to keep up with all the Government programs.

We have virtually eliminated travel. We reduced our expenditures for leasing and communications and utilities by 19 percent. We reduced our printing costs by 22 percent. We reduced our contractual costs by 23 percent, and we have reduced supplies and equipment purchases by 44 percent.

We have had some pretty severe paring in all those discretionary margins in the budget, where reductions are possible. We feel that some of these cuts need to be restored this year if we are to keep up with the workload and continue to serve the basic function of providing the President staff support, of coordinating the budget, of coordinating policy, coordinating legislation and testimony and all of the other multiple functions that OMB has.

I think I will leave it at that. I think that fairly summarizes what we are requesting and some of the reasons why. I will try to answer any particular questions that you have.

Senator ABDNOR. Thank you, Mr. Stockman.

I would start off by saying that I think most of the agencies that come before this subcommittee are personnel intensive. I am sure you know better than I do that we do not carry out the programs in most of these agencies with the big bucks you have in social security and different Government programs put into effect. But ours deals with practically all office space and personnel and maintaining the offices and in most cases we have been pretty conservative with these people and the requests have been quite reasonable.

I have to admit, when I first saw this, I thought your request—how do we justify you suddenly going up greatly percentagewise? I guess we took care of part of that last year with a really substantial cut.

You referred to 1981. I forget, did we cut you over previous, 1980?

Mr. STOCKMAN. Yes; I think the budget history in 1981 was about $33.5 million. In 1982, it was $33.5 million; in 1983, we went down to $33 million. Now we have a supplemental before you.

Senator ABDNOR. You were able to keep up with salaries?

Mr. STOCKMAN. It took a great deal of squeezing.

Senator ABDNOR. You kept up with those by cutting back?

Mr. STOCKMAN. All those items I read to you, in terms of travel, contractual services, equipment leasing, equipment purchase, we cut to the bone. I think putting agencies through that kind of squeeze is a good idea. We found a lot of overhead and a lot of dead wood that was not needed, even given the pressure on OMB to perform all the functions we have.

But after a while, you have to recognize that certain costs are necessary.

Senator ABDNOR. If your figures were appropriate, that would put you where you really want to be?

Mr. STOCKMAN. That is right.

SLUC

Senator ABDNOR. Let us talk a bit about the SLUC. Who determines what this charge should be? Does it come out of your office or the GSA? I know what it is supposed to represent but it is so substantial.

Mr. STOCKMAN. When we froze it last year, we got a year behind in terms of bringing these schedules to the market rate. What we propose in the 1984 budget is, in a sense, a 2-year catch up, to keep on the original formula. If we freeze again in 1984, we will be that much further behind.

Senator ABDNOR. Freeze, I would not argue with that. Some of the SLUC has gone up 40 or 50 percent.

Mr. STOCKMAN. Ours is up 125 percent. Mr. Chairman, can I explain why in our case? Our staff is almost entirely housed in the New Executive Office Building. That is prime, choice real estate at the corner of 17th and Pennsylvania Avenue. The existing SLUC charge is $13. There is no way that that is even close to a commercial rate. If you could start a lemonade stand there, you would be a millionaire with that rate. The formula produces a charge of $29. Now that is a pretty steep jump in 1 year. We were supposed to get that last year. Since we froze last year, we now have this huge increase. I admit, it is quite a dilemma because of the freeze last year and the magnitude of the increase we face. That is 55 percent of my budget requested increase. But we have to find some way to get back on schedule, and it may be the committee has a better idea for the calibrating of the formula or getting back on track. We do think it was an important, fundamental reform to require agencies to be space conscious, to realize there is a cost associated with it, and to have to deal with that in the budget. I hope we can find some way to make this up.

Senator ABDNOR. It might work if we grant everything they request—I do not know if this would cause them to request less in other areas, if you were charged more in the rent. But I think while yours is probably the greatest increase we have come across, they are all substantial, more than just the 2-year rates. I have no idea what rates have done in the way of increasing, inflation, and whatever else is increasing around town—do you work with that?

Mr. GERSON. As David indicated, if you look for something at approximately its fair market valuation, take our example, the New Executive Office Building.

Senator ABDNOR. Yours is extreme. Let us take one of the other guys. Let us take somebody who has been in the same building for 5 years.

Mr. STOCKMAN. The 1982 charge level, which was frozen into law last year, was well under the market and we have been in the process of trying to get back up to the market rate. Now, we have lost a year because of the freeze, and the increases are just that much more.

Senator ABDNOR. I am sorry. I forgot to ask you if you had an opening statement.

Senator DECONCINI. No; that is all right. You go right ahead.

Senator ABDNOR. This committee might want to go further.

Are you the agency that sets the SLUC or do you get together with GSA?

Mr. GERSON. GSA sets that.

Senator ABDNOR. You do not even necessarily approve it?

Mr. GERSON. The rates are set by GSA.

Senator ABDNOR. What happens to the dollar? They put that in the fund?

Mr. STOCKMAN. That goes into a fund and then it is used for new construction and for maintenance and repair.

Senator ABDNOR. It is pretty controlled. We are the ones that——

Mr. STOCKMAN. You control it through an obligation limitation.

Senator ABDNOR. Do we always get the right amount?

Mr. STOCKMAN. I would have to check the history of that. Basically, what it allows you to do is control the activity level by setting an obligation limit on the amount of the money in the fund that can be spent, versus appropriating new budget authority. So you have the same control.

Senator ABDNOR. Senator DeConcini, I am sorry, let me say.

Senator DECONCINI. I have no opening statement. I am glad you started on this particular area, the SLUC charge.

I have an understanding that OMB played a role in determining SLUC. You do not approve what GSA suggests or any of their formulas or anything in determining what the going rate is?

Mr. STOCKMAN. The SLUC ratesetting system used by GSA is approved by OMB. Once the formula is approved, it is then applied by GSA.

Senator DECONCINI. I am sorry to ask this question, and I should know the answer, but who instituted the SLUC in the first place? Is that a congressional mandate?

Mr. STOCKMAN. That is the case.

Senator DECONCINI. When did that happen, do you know?

Mr. STOCKMAN. The SLUC system was established within the 1972 amendments to the Public Buildings Act.

Senator DECONCINI. Your SLUC figure lit up a 125-percent increase. It appears that Mr. Stockman does not have much choice. That is really what you are saying in your statement. SLUC is thrust upon you by GSA and you have got to pay it unless we freeze it again.

Mr. STOCKMAN. That is right. As I said to the chairman, we have an exaggerated case: Clearly, the $13 per square foot rate that was frozen at the 1982 level was way under the market. You can argue whether $29 is the market rate at that location. It is fairly close, and under the policy of going to the market rate in the SLUC, that is the kind of increase we get.

Senator DECONCINI. Your own office budget will increase nearly 10 percent, from $4,476,000 in fiscal 1983 to $4,923,000 next year; yet your positions remain the same at 65. Your justification talks about improvements you have made or you hope to make but there is no explanation of this large percentage increase or what it will allow you to do next year. Can you give us some background on why your office needs a 10-percent boost when everyone else in Government is asked to hold increases to no more than inflation?

Mr. STOCKMAN. I think that is primarily for equipment.

Mr. GERSON. Senator DeConcini, I believe what you see in the justification that we sent forward represents a shift of personnel which was previously classified elsewhere at OMB, specifically the administrative personnel that are now consolidated in the Director's office. The administrative personnel in OMB have been reduced from about 12 to about 6 in the last year or so, again trying to squeeze down where we could afford to do so. And those six people have been incorporated in the Director's office.

Senator DECONCINI. But the number remains 65?

Mr. STOCKMAN. Yes; and that represents an increase of six administrative people being brought into the Director's office and a decline——

Senator DECONCINI. You are just moving them from one area. Shouldn't there be a 10-percent reduction someplace else because you are moving those six people.

Mr. GERSON. Obviously, the other numbers change as well but that is an offset from another area.

Ms. BRYANT. The 10-percent increase also reflects the Director's office per capita share of agency overhead costs, including SLUC, ADP contract support, printing, supplies and equipment. The reorganization resulted in a shift in actual positions not on-board strength. There are vacancies. So the actual staffing level is below the number of total authorized positions that the organizational shift would indicate.

Senator DECONCINI. Mr. Chairman, I have a number of other questions. I can wait until the subject comes up.

CUSTOMS SERVICE

Senator ABDNOR. We are both very interested in Customs.

Senator DECONCINI. Why don't you go ahead.

Senator ABDNOR. It is really a great concern. I may have to go back a year and say we dragged our feet on the BATF. I think maybe time showed we were not that far off base by retaining BATF and it is working really well.

You are proposing in this reduction—am I right in saying you first proposed a reduction of 2,000 positions at Customs Service? Don't you feel that that is impossible to absorb that kind of number? We went through this very carefully last week with people from Customs as well as Cora Beebe.

Let me ask you, what role did OMB have in this?

Mr. STOCKMAN. Well, Mr. Chairman, I would have to answer, it is about the same role as in every other agency. We challenge the agency and usually we feel it should be tighter than they feel. They meet with us and we come to some agreeable solution. That clearly happened in this case. Our original passback was somewhat steeper than the 2,000 but after some discussion and careful analysis, both agencies, in this case OMB and Customs and Treasury, finally settled on the 2,000 cutback. We think there are a variety of areas where it can be absorbed.

I know there is an argument about whether it can be done in 1984. I admit, that is a pretty stiff goal, but, nonetheless, continuing prior-year policies we have consolidated district offices. In addition, we propose expanding the use of post-audit techniques, continued automation of the entry process, centralized appraisment, and increasing selectivity of processing. All of these thrusts, we believe, will make it possible to substantially conserve personnel and costs over the long run.

On the other hand, I realize the committee has a legitimate concern, is this feasible in the timeframe we proposed. We think it is and that is where we are.

Senator ABDNOR. We would like to have you sell us on it. I do not know if I am speaking for Senator DeConcini but when we left the meeting, No. 1, what was it, 1,700 positions below what we authorized? We think they are carrying on a very fine program and it seems like the greatest emphasis of one of the Members of Congress has been in this drug interdiction.

Mr. STOCKMAN. This is outside the drug interdiction area entirely. This is coming from the inspection and tariff and trade inspection.

Senator ABDNOR. The interdiction part itself is not the personnel. That is where some of the spots are that we are so concerned about.

Senator DECONCINI. Mr. Chairman, if you would yield, I would take exception. There are some 820 cargo inspectors that would be cut. Some of the biggest seizures have come out of the planes they inspect. Maybe you have not been down in Miami and you do not know that the 1984 budget will cost 820 agents. They will not look at those planes any more. I understand Customs originally asked for 14,124 positions. Can you verify that?

Mr. STOCKMAN. I could not verify it here. I suppose I could check. We do not receive the agency's budget but we receive the Department's recommendation.

Senator DECONCINI. The Department request proposed keeping Customs at the 1983 level of 13,492. That is a cut of 632 positions. I am under the impression that this was sent up the line to OMB and was apparently approved. However, the OMB directed the Treasury, as a whole, to live within its aggregate 1983 personnel level.

Is that correct?

Mr. STOCKMAN. I would have to answer that for the record.

Senator DECONCINI. Can you find that out for us? I am concerned how this budget was derived and let me tell you why: Because I think what has happened, I cannot get a confirmation, is that Treasury wanted a major personnel increase in the IRS and the only way they could get it was to negotiate with you, and offset somewhere else in Treasury.

Mr. STOCKMAN. I can tell you on that, Senator, that was dealt with on an entirely separate track. We have an internal procedure that you are well aware of that the agency makes a request and we pass back at OMB to the agency. If it cannot be resolved between the staffs, in this case, Treasury and OMB, then it moves up to an appeal review committee that consists of myself, James Baker, and Ed Meese and the tough issues are worked out there. IRS staffing, that was not resolved in the regular process went to the budget review board and we had quite a tussle. I think we settled on a number of 91,000 or whatever it was. I had no relationship—it was not considered in connection with or as tradeoff with anything in Customs. That was done on the merits in the case of the IRS.

Senator DECONCINI. If that is the case, I would like to know how you rationalize, a reduction of 2,000 positions in Customs.

Mr. STOCKMAN. We will lay that out in more detail.

[The information follows:]

CONTINUATION OF PRIOR-YEAR POLICIES

Consolidaton of regional and district offices has generated cost savings that will be fully realized in 1984 ($6.7 million and −170 FTE).

Replacing physical control of warehouses with professional audits and reviews of records and spot checks of inventories will save $2 million and −114 FTE.

NORMAL ADMINISTRATIVE EFFICIENCIES

Through greater automation, more effective workload controls, and higher productivity, Customs expects to save $7 million and −192 FTE.

NEW INITIATIVES

Realinement and centralization of locations where import specialists perform appraisements will: cut number of locations in half (70 to 35); result in more uniform treatment, improved communications, and reduced sampling; and save $5.7 million and −156 FTE.

Greater inspection and control selectivity will save $34.4 million and −918 FTE from a base of $238 million and 5,640 FTE in 1983. With new selectivity criteria, Customs can better target its resources to higher payoff areas and achieve its enforcement goals with fewer staff resources.

Greater tariff and trade selectivity will save $16.8 million and −450 FTE from a base of $127.2 million and −3,087 FTE in 1983. By using post-audit techniques, Customs can assure full compliance with regulations and modify faulty procedures which allow certain transactions to be incorrectly bypassed.

REDUCTION OF EMPLOYMENT AT CUSTOMS SERVICE

Senator DeConcini. You and I may disagree but there may be merit to a tradeoff.

Mr. Stockman. I can tell you unequivocally that did not happen. Senator, our people felt for quite some time that there were major possibilities for employment reduction in the Customs Service in this area of cargo processing, by using brokers, by going to centralized appraisment, by using post-audit inspections. If you disagree with that programmatic approach, then you will need more people. We think that programmatic approach is justified.

Senator DeConcini. I asked the Secretary if he had been down and looked at those cargo inspectors. I wonder if you have. I wonder if you have sent anybody down.

Mr. Stockman. I have not but I am sure our staff people have.

Senator DeConcini. While we are on the IRS, I agree with Secretary Regan calling for beefing up the IRS data processing capabilities by some 600 slots, and about $93 million. But I question why the administration needs an additional 1,775 new slots and $62.4 million more to implement the new tax law. As you will recall, last year Congress approved 5,200 new collection and examination people. Can you give us some rationalization for this 1,775 add-on?

Mr. Stockman. Yes; I believe in all of the comings and goings of that tax administration law last summer, there were two separate thrusts: One was the extra money, the extra agents in order to improve collections from existing law. That was carried in the budget resolution and it was a $1 or $2 billion item. Then when we had to implement the revenue target in addition to that enhanced collection, we wrote TIFRA which all kinds of complicated changes in the tax law and it is from those complicated provisions that the request for additional personnel was derived.

As you probably know, we are still in the process of writing regulations from the 1981 act. We now have laid on top of that the 1982 act. We have the huge controversy going at the moment on the question of withholding of dividends. We have major changes in corporate taxation from 1981 that are still in the process of being implemented. Even though I do not like to see personnel levels go up, I was persuaded in the process that the extreme complexity of the provisions in the 1982 act will require these additional personnel.

Senator DeConcini. Over and above the 5,200, obviously?

Mr. Stockman. That was entirely separate. That was for enhanced collection under existing law, particularly running down the debts.

Senator DeConcini. Are all those in place, do you know?

Mr. Stockman. I think we were wrapping in 1983 and should be fully up to speed in 1984. But I will have to supply that for the record.

Senator DeConcini. Would you let me know?

Mr. Stockman. The thing I want to stress is they are two separate initiatives.

Senator DeConcini. The reason I asked that question is I wonder if all of those 5,200 were and are being used in that capacity and if, in your deliberations, any of those could have been moved over to handle TEFRA without adding a full 1,700. Maybe you did move some over. If you can give us some indication.

Mr. Stockman. We do not like to get into all of the interaction back and forth but they did come in with a much higher request. I believe we took several thousand out of the initial IRS request.

Senator Abdnor. Let me pursue that a bit more. I recall when we voted for that piece of legislation, what was it, 85 percent they said was not new law, that it was a different form of reporting.

Mr. Stockman. It was new law, not new taxes.

Senator Abdnor. We dropped off dividends and earnings here, except for the study.

Mr. Stockman. We have not done that yet. We have had one body of the Congress approve that. I will tell you this, Mr. Chairman, and I am sure you will be bearing from the Secretary of the Treasury shortly, this compromise is going to be far more personnel-intensive and complicated than what you have in law right now.

Senator DeConcini. Can you give us an idea of what you expect?

Mr. Stockman. I do not think we have really built up some estimates yet but if you look at the procedure whereby all tax returns would have to be checked against the 1099, if there is a perceived variance, then a notice has to go out and the 60-day period starts. You are talking about sending out tens of millions of pieces of paper. You are talking about tens of millions of taxpayers.

Senator DeConcini. That would be a good argument for you to use with the administration to not only accept this compromise but to accept total repeal. You do not think so?

Mr. Stockman. I think in light of the current budget circumstances, we would be hard pressed to give up the revenue.

CONSULTANTS

Senator Abdnor. Let us touch on another subject. I was hoping Senator Mattingly, who wanted to be here, who is very interested, as has been Senator DeConcini—I will just touch on the language we had in the continuing resolution regarding both automobile purchases and consultants. I will skip the consultants but I think it is your feeling that OMB felt we had no jurisdiction over these areas. Is that right?

Mr. Stockman. No; we did have a difference of opinion about that but my view was that if you want to cut consultants, and it is a good idea, and we have been whittling away at that since we started, you really have to put it into the subcommittee bill, at the appropriations bill level. We try to do things on an across-the-board basis. There is no obvious way you can implement that very easily without starting in motion a whole new set of regulations or orders from OMB to agencies over the current budgeting system. So I would encourage you to keep pressing harder but to do it on a subcommittee bill basis.

Senator ABDNOR. Let me put it this way. Are you doing anything that you think we are on the right track?

Mr. STOCKMAN. I think we sent a letter to you on the consultants a while back outlining what things that we are doing now in response to that mandate and I am just saying that for the future I believe if you really want to take real money out of consultants, rather than just cause an account shuffling and paper shuffling in the agencies, we have to hit their individual line item appropriations.

Senator DECONCINI. Mr. Chairman, would you yield?

Mr. Stockman, last year we attempted to cut consultants services by as much as $320 million. We have continued to pursue this matter and OMB's role in reducing this, and this is where there is a real conflict. We have learned that as few as 25 percent of Federal agencies are complying with the law that requires agencies to include in their budget their consultant services estimates. OMB Circular A-11 on how agencies must preparet heir budget books does not require that consultant services spending data be provided. OMB plans to repeal its Circular A-120 which contains the Government-wide definition for consultant services and important management controls for agencies to follow to insure proper use of those consultants.

And, furthermore, I cannot find any mention of OMB's initiative in your fiscal year 1984 budget justification to reduce consultant services spending.

Can you tell us why it appears that OMB's efforts in bringing Federal consultant services spending under control are being relaxed rather than tightened which is quite the contrary to what Congress indicated they would like to have accomplished?

Mr. STOCKMAN. Well, if there is some process in motion to get rid of the circular, you know about it before me. It has not come to my attention yet.

Senator DECONCINI. GAO led us to that conclusion.

Mr. STOCKMAN. Let me be very candid with you. The first thing I did 2 days after we were in office was, to have a big cut in consultants. I kept asking people for our numbers and analyses to see how much we could save. We never could find it. And the reason we cannot find it is because those appropriations accounts are very fungible and the agencies have a thousand ways in which to reclassify in order to make it appear that some object class that you want them to address, like consultants has come down. We have a very elaborate system for object class analysis of classifying and defining and identifying consultants and all these other items and I am not being negative about it. I am trying to give you from my experience and I came in thinking we are really going to bash these consultants because I know they are all over town and the beltway is evidence of what has happened in that area. But I want to give you a candid conclusion, that unless we can find some better way to define, classify, and identify a class of activity called consultants, I believe we are just going to be getting a lot of paper reports that may not prove anything at all.

Senator DeConcini. How about a line item in the budget?

Mr. Stockman. Well, if you want to create line item appropriations for consulting, I think you would have to think about that fairly hard.

Senator DeConcini. Well, the problem we have—what you are telling me, is it is out of control and nobody can get a handle on it. You, as strong as you have been, and the effort you have put forward over the last 2 years, you are incapable, and I do not mean that you have not tried, but you are incapable of getting a hold on the consultants expenditures. That, to me, is an indictment on us all, if we cannot control expenditures of this Government, if it is consultants or in buying pencils; that somebody does not have a way of approaching this.

Are you satisfied you have exhausted everything that you can do?

Mr. Stockman. I would like to propose an alternative approach. I do not think you can do it across the board. I think you can get some notion whether it is a real abuse among agencies selectively and then just take it out of their appropriated number. I do not think there is any formula or I can send out a directive or memorandum saying you shall reduce your consultants by 20 percent. Because they will redesign the object class called consultants so they will all comply and the consultants will show up somewhere else. What you need to do is identify through the work of the staff of the Appropriations Committee those agencies where you believe there is real abuse, overlap, gold-plated studies, and come in and grill that appropriation by an arbitrary figure.

Senator DeConcini. I would like to be able to do that. But if you cannot do that with your resources and the authority that your office has, how in the world is this committee going to be able to make that assessment? Am I correct, you are telling me that there is not much more we can do?

Mr. Stockman. No; we can continue to keep heat on the agencies on an account by account basis. That is one of the factors we take into consideration in approving the budget level.

Senator DeConcini. Fewer than 25 percent of the Federal agencies are complying with the law.

Mr. Stockman. That is something I was not aware of. That is something we have to do something about.

Senator DeConcini. At least it would help you—I would hope it would help you if they were all complying and then you would have an opportunity to say, we can identify these expenditures.

Mr. Stockman. I hope that we are not misinterpreting one another. What I am trying to suggest is if you just raise out of this vast Government an object class called consultant expenditures and then try to implement a formula, either a general formula or a directive from you or OMB, that object class shall come down by an arbitrary figure, you will just cause the agencies to get very creative about how they define consultants.

So I think we need a better approach. The first one is to have full information and that we will look into that and make sure that if the law requires the budget identification to have this, it is there. For the longer run, the way you do this is by examining the accounts at our level.

Senator DECONCINI. Are you doing that now because you are due to report to us this month.

Mr. STOCKMAN. We have that report coming and I will try to put some of these ideas into it.

Senator DECONCINI. I do not chastize it necessarily. I think you are trying and I think you are committed to it. The frustration I have, and maybe that you have, is it seems to be out of control. Senator Mattingly has spent more time on it than I. Last time I talked to him, he was going to throw up his hands and they were going to do something else. I do not know what else to do but to force you to force the agencies to cut, but first you have to find it.

Mr. STOCKMAN. Senator, if I can respond and then hear from Senator Mattingly, at our level we cannot do it. You cannot sit down and write a formula and I cannot. Your staff and our budget examiners are down there at the nitty-gritty level and know how these agencies are operating. They know where there are excess expenditures for these things. The way the institution operates is that our people hit them hard down there at the budget examiner level at their initial request, if they feel there is excess equipment, excess travel, excess anything, but when we raise it up to this aggregate level and try to deal with big formulas across the Government or from the top down rather than at the operating level, I do not think we get very far. We get a lot of gamesmanship.

Senator MATTINGLY. I was not really throwing my hands up but just bringing them to a fighting position.

You were referring to abuses in the consultant field. Is that the same thing as overspending? I think that is what we are getting at.

Let me ask you this: Can OMB withhold funds from accounts as it does on other projects?

Mr. STOCKMAN. If you appropriate it under the act, we have to appropriate it.

Senator MATTINGLY. I know you have withheld funds on a transportation project or whatever. But you do have the power?

Mr. STOCKMAN. It depends on the project.

Senator MATTINGLY. But that does happen?

Mr. STOCKMAN. That is right.

Senator MATTINGLY. Is there a way that you can withhold funds on the consultants?

Mr. STOCKMAN. In most cases I think it would be hard to do because——

Senator MATTINGLY. You can do it on a water project.

Mr. STOCKMAN. Because on the water project there are all kinds of procedures we go through before we release it. On the consultants, it is usually 1-year money and if you do not obligate it, we get a report from GAO.

Senator MATTINGLY. Would you think then that if we took each of the 13 appropriations bills and each chairman directed—of course, we know we cannot do it for this year but, say, next year—directed them to include language that mandated that each agency report how much it is spending on consultant fees. Can we do that? Can we write instructions in this year's budget that next year we want them to provide that information?

Mr. STOCKMAN. That can be done and I would offer the services of our staff to work with you to define what you want reported. In our object class system, I believe we do have a definition of consultants but it may not be comprehensive enough to catch all of the fish in the sea.

Senator MATTINGLY. We can't catch all of them. We know we cannot do that. But, if you can come up with the language to put in the appropriation bills, the subcommittee chairmen and we can attach it to each one of those bills, and I am sure when the agencies are faced with it——

Mr. STOCKMAN. I would be very happy to work with you and other Members to get disclosure first.

Senator MATTINGLY. If you could get something to us, I think that would be a step in the right direction. I know as a former chairman of the legislative branch, that OTA, CRS, GAO, and CBO do multitudes of studies.

Mr. STOCKMAN. That one I have to delegate to you. We have a custom of not interfering with the legislative branch budget. If you want us to look at that hard, we could do that.

Senator MATTINGLY. But I know that when we did an analysis of those studies the first year, in 1981, for fiscal year 1982, that we saw a tremendous overlapping of the same consultants and subjects.

Mr. STOCKMAN. Senator Mattingly, let me suggest one other thing. When you go after them at the agency level, line item level, they drag out statute books showing all the studies Congress mandated them to do, 1-year studies, 6-month studies, 2-year studies, all special studies. The only way to get at real consultants, elimination of waste, as opposed to paper chasing, is to begin to figure out whether all these report requirements and information generation requirements are necessary and whether that can be pared back quite substantially. You have to look at the drivers, the things that drive the justification for the consultants as well as the numbers that are out there in the excess and the abuse.

The other thing I would caution is that our examiners cut the budget of a lot of agencies for that very reason. Then they come up here and testify to your committee and they bring you gold watches. They say, if you cut us $3 million, we will close the district office in Georgia or South Dakota. Rather than the real reason we cut the budget was because they did not need that much staff level or go out for $3 million with beltway contracts.

So between the gold watch syndrome and all the mandates——

Senator MATTINGLY. Are you referring to Richard Allen?

Mr. STOCKMAN. Well, we sometimes call it the Washington Monument. You have to be aware of it. You are hitting the consultants and they will come back and tell you all the terrible things that will happen.

Senator MATTINGLY. As you know, I am determined to pursue this with Senator DeConcini and Senator Abdnor. There is just too much money spent on outside consultants. We just want to try to restrain that. With your help on this—I do not know whether you were in here, Senator. He is going to develop some language that I recommend we put in each appropriations bill this year, the 13 of them, to make sure that next year when the agencies come in they are able to show the amount of money in consultants expenditures.

Senator DECONCINI. It is a good idea. Let us try something else because what we told you to do, it appears, you are unable to do.

Mr. STOCKMAN. We have been doing it for 2 years but I do not think we are getting too far.

Senator MATTINGLY. Senator Pryor tried to do it with one and eliminate $500 million and then was told he could not do it because "we are the authorization committee." I think now we are at the right place.

Mr. STOCKMAN. Mr. Chairman, I have a meeting downtown on an important matter of law enforcement that a number of Members of this committee are concerned about, the immigration bill, and this meeting is scheduled to start shortly.

Senator MATTINGLY. Well, we have one on the budget at noon.

Senator ABDNOR. We have a long ways to go. I was just told this morning that you have this meeting. You are a busy man. I have some written questions.

ADDITIONAL COMMITTEE QUESTIONS

Senator DECONCINI. I have some questions, Mr. Chairman, but if the Director has to leave, we will have to submit them in writing. They deal with law enforcement and the President's new national narcotics interdiction border system and so I will submit them in writing.

Mr. STOCKMAN. I would be happy to come back but I really have to go.

Senator ABDNOR. We will submit them in writing or ask you to come back.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR JAMES ABDNOR

Question. Mr. Stockman, I understand from press reports that you and Secretary Block are at odds regarding the future of marketing orders.. You are proposing to the President that they be terminated. Has any analysis been done on the potential consequences of your proposal on farm income and food prices.

I am also concerned about the implications. The State Department has been handling exports. Does this action mean OMB is trying to take control of the agricultural related exports?

Answer. We are not proposing that market orders be terminated. However, USDA has been asked to develop a plan to phase out the most restrictive aspects of these programs. This should result in lower food prices. The marketing order issue does not have a significant affect on agricultural exports.

FORGONE SUBSIDIES

Question. The administration has proposed a reduction of $389 million for fiscal year 1984 in the revenue forgone subsidy. The $400 million proposed will raise the phasing agreement off the chart. An agreement was made several years ago to bring the mailers to the point of paying full fare. I beleve we should honor that commitment.

My question is with that in mind, plus the emphasis the administration has placed on the private effort to raise funds, don't we cut them short? Do you have a comment?

Answer. We are, of course, aware of the commitment to have nonprofit and certain other special mailers move away from subsidized rates. At the same time, your question gets at how this commitment can be reconciled with impacts on nonprofit fundraising.

We do recognize the importance of voluntary fundraising by charitable organizations. There are, however, over 300,000 plus preferred-rate mailing permits currently in force. We believe there is latitude to tighten eligibility for these subsidies. We believe that these organizations should pay a greater share of the mailing cost provided to them. For this reason, we are in the process of transmitting proposed legislation to the Congress that would establish a ceiling of $400 million per year for Federal subsidies to the Postal Service. We do not believe the rate increase associated with this reduction will prove unduly burdensome.

WATER RESOURCES (NAVIGATION USER FEES)

Question. What priority does the administration place on cost recovery for maintenance and construction of navigation projects?

Answer. The administration places a high priority on navigation cost recovery legislation. It does so for two basic, but related, reasons. First, the passage of such legislation for inland waterways and ports could reduce the projected budget deficit by about $500 million a year. Second, unlike many other revenue measures, navigation user charges may ultimately save private sector and Federal moneys by encouraging efficiencies in the Nation's waterborne transportation system. We expect better utilization of existing capital facilities, and better investments to result from the introduction of user charges.

Question. Two measures have been introduced in the Congress which would recover port maintenance costs: one type of *ad valorem* tax proposal which has been made by Senators Hatfield, Warner, and others, and one a tonnage fee proposal which has been made by Senators Moynihan and Stafford.

Does the administration favor one of these approahces—*ad valorem* taxes or tonnage fees; and if one approach is favored, why is it preferable?

Both of these proposals would in some fashion apply maintenance funds recovered over a certain limit as a grant for future new construction. Does the administration approve such a grant or entitlement proposal?

In either case, what percentage of maintenance recovery would be acceptable?

In either case, what percentage of local costsharing for new construction would be acceptable?

Does the administration favor the application of customs revenues to port costs?

Answer. Naturally, the administration has a preference on most of the issues addressed by your questions. However, any issue would have to be reviewed in the context of the total bill. Please keep that caveat in mind while evaluating my response. The detailed method of recovery that a deep draft bill employs is obviously less important than getting a bill in place. I believe that a variety of administrative mechanisms can be made to work, including *ad valorem* taxes and tonnage fees. I believe the preferred method should be the one we can all agree on.

I see little reason for port maintenance funds to be used for construction—we have all seen Federal programs with earmarked funds paced by the availability of money rather than the need for the program. Certainly we do not need another Fedral grant or entitlement program at this time.

Since the beginning of the deep draft user charge debate, I have consistently said that commercial users should bear the bulk of these costs. Presently, the Federal Government is providing an industrial-type service to industrial-type users. Reducing the Federal subsidy to these commercial users to the minimum feasible level will ultimately help not only the taxpayers, but most of the users as well.

The local cost share shoud be high enough to provide a market test for the needs of the port and thus discourage unnecessary and uneconomic construction. The cost share levels described in S. 865 need to be increased. The exact percentages, of course, will have to be the result of negotiation, not only between the administration and the Congress, but within the Congress as well.

Simply earmarking an existing source of Federal revenue, like customs duties, does nothing to reduce the deficit or reduce Federal subsidies to navigation project users.

WATER RESOURCES (OMNIBUS AUTHORIZATION BILL)

Question. What would the administration consider as acceptable in the way of an Omnibus authorization bill?

Answer. A bill moderate in total cost, containing projects completely and favorably reviewed by the executive branch, and providing for significantly increased water project costsharing would be welcomed by the administration.

Question. When contracts are advertised for mechanical maintenance service, minimum man-hour requirements are not included in the specifications. Government estimates and bids are based on full-time equivalent staffing at established hourly wage rates by grade. Government staffing for mechanical postions is based on a workload study consisting of time required to perform preventive maintenance, service calls, and startup and shutdown tours on all building systems and equipment. Why do double standards exist in this procedure?

Answer. When the Government prepares a work statement for use in an OMB Circular A-76 cost study, the specifications must state what is to be done, not how the work is to be done. This allows contractors and the Government to develop and propose innovative ways of performing a certain activity without the constraint of minimum labor hours.

There are no double standards. The Government and the contractor are required to develop their work plan from the same standard of work. Accordingly, the Government is under no obligation to follow any preconceived minimum man-hour requirements.

Question. Administration of Government contracts requires personnel time, travel, document preparation and involves Government personnel at four levels (Washington, regional office, field office, inspector) within GSA. OMB Circular A-76 does not allow a realistic percentage to be used on the cost comparison form, line 10. Why are the administrative cost percentages so low, and in some cases no cost for administration is allowed? A certain amount of contract administration is required regardless of the size of the contract.

Answer. The cost percentage of 4 to 6 percent for contract administration allowed in the current OMB Circular No. A-76 was developed in 1979. A review within the Department of Defense found it to be fairly realistic. However, because of the concerns for more flexibility in estimating contract administration cost, the proposed revision to OMB Circular A-76 provides a sliding scale based on staffing requirements and no longer uses a fixed percentage of contract costs.

Question. Why shouldn't private contractors be required to be accessible like Government personnel in time of emergency?

Example—

a. Broken water pipes—emergency callback service (within 1 hour) is specified within the contracts. A flowing water pipe would cuase considerable damage to the building before the contract person was required to report on the callback.

b. Boiler failure during extremely cold weather could cause considerable damage throughout the building's mechanical systems as well as structural damage.

c. Security in buildings where Federal courts carry on daily hearings and related activities is critical. Emergency on-hour callback is unrealistic in these buildings.

Answer. With respect to the handling of the type of emergencies you identified, it is the responsibility of the Government to insure that there are provisions in the performance work statement that would require appropriate response from the contractor in such emergencies. If the Government requires the contractor to be "as accessible as Government personnel," then they should define that accessibility and include it in the contract performance requirements. If the Government cannot find a satisfactory contractor under competitive conditions to meet these requirements (which must be the same for Government employees) then the activity would remain in-house. As I mentioned in a response to a previous question all requirements must be included in the work statement, including the ability to meet emergency situations.

Question. Additional percentages of varying amounts depending on type of item are to be added to the Government's cost estimate for materials and supplies. Why must the Government add percentages of cost on materials and supplies to their estimate?

The Government's cost remains and same (less the additional percentage). Recently, GSA has widely publicized to all Federal agencies that there is a 20-percent savings to the taxpayers in their supply system. If the Government operates the buildings with their personnel, the Federal Supply System continues as a mandatory source of supply. Once again, why do we have to add percentages comparable to open market prices? This gives the private contractor another advantage when bidding against the Government.

Answer. The problem has been addressed in the proposed revision to OMB Circular A-76. If the Federal Supply System continues as a mandatory source of supply, then the additional percentage would be the same for either type of operation and would not be included in the cost studies. Further, OMB is going to request GSA and DLA to provide new percentages based on variable cost to use in cases where purchases from the Federal Supply System is not mandatory and will only be used when these supplies are provided for Government operation of the activity.

Question. Why isn't the cost of severance pay for Government personnel added to the contractor's cost? Also, withdrawal of Government retirement deposits and possibly unemployment compensation should be added to the contractor's cost—not to the Government estimate.

Answer. Severance pay for Government personnel is added on the cost of contracting out.

Withdrawal of Government retirement deposits is not a cost to the Government or the contractor as these are employee contributions.

Contractors must pay unemployment compensaton based on the number of employees on the contract and their salaries. These costs are factored into the contract price.

Question. What effect, if any, has the Federal effort to contract out work wherever possible had on the attempts to identify and control Federal expenditures on consultant services?

Answer. The two efforts involve procurement of two different types of services. The effort to contract out, wherever possible, involves the acquisition of nonadvisory services and the use of equipment and facilities. Consulting service contracts are used to acquire advisory services and expertise that is not readily available within the Government. Our efforts to contract out commercial activities where that work can be done more economically by contractors has not inhibited our efforts to identify and control Federal expenditures for consulting services. The controls are in place and the use of consulting services is decreasing.

Question. Is there an inherent contradiction between the contracting out emphasis on the one hand and the effort to limit consultant expenses on the other?

Answer. We find no contradiction between our efforts to contract out commercial activities on the one hand while reducing consultant expenditures on the other. Both have been done effectively. Our goal is to contract out for services where that can be done efficiently and effectively and at the same time, eliminate the unnecessary and excessive use of consulting services. Where innovative ideas and the best possible experts are required and they are not available within the Government, contracting for consulting services may, of course, be appropriate.

Question. All three branches of the Federal Government have enormous research and reference materials and facilities at their disposal. What factors can you cite that have led to the growth in consultant services despite the existence of these research materials?

Answer. Current guidelines provide that consulting servics only be used to obtain specialized opinions or professional or technical advice which does not exist or is not available within the Government. We use consultants to gain outside points of view to avoid limited judgments, and to obtain advice regarding developments in industry, universities, or research foundations. We also use consultants to obtain the opinions of noted experts whose national or international prestige can contribute to the success of important projects, and to secure citizen advisory participation or the consensus of scientific opinion in programs that by their nature or by statutory provisions, call for such participation or consensus.

Consistent with out commitment made to the Treasury, Postal Service, General Government Appropriations Subcommittee, the use of consulting services by the Federal

Government is being restrained Government-wide. Consultant services have been reduced in the nondefense agencies by over 34 percent.

Question. Are DOD expenditures for consultant services in direct proportion or ratio to the overall Defense budget? That is to say, if the Defense budget were to remain relatively constant from one year to another, would consultant expenses also remain constant in DOD or would we see a significant increase despite the static level of the overall DOD budget?

Answer. DOD expenditures for consulting services are decreasing as a percentage of both the total Defense budget and the Defense procurement budget. For example, they represented $785.5 million out of $104.2 billion or 75 percent in 1981 and $902.4 millin out of $125.4 billion or 72 percent in 1982.

Question. Mr. Stockman, I believe that the consultant service expenditures, with the attendant difficulties in control, description, definition, and reduction, serve as a perfect symbol of the difficulty that Congress faces in controlling the overall Federal budget. Would you agree?

Answer. This administration has been sucessful in reducing expenditures for consulting services. While it has been difficult, we have shown that it can be accomplished. In many respects, the problems of describing, defining, controlling, and reducing these expenditures parallel to the problems with respect to the overall Federal budget and in that sense I agree with your observation.

Question. I'm told that there are a number of interagency groups, Cabinet councils, and other bodies that meet regularly to discuss streamlining and improving Federal administrative procedures. Can any of these groups, in your view, help with this problem.

Answer. Interagency groups have assisted in developing and testing a model control system and an audit guide for consulting and related services. We believe that further implemenation of OMB Circular A-123 on internal controls by the agencies will enhance our efforts to reduce consulting costs. In addition, an interagency group has modified the Federal procurement data system to include 48 additional service categories to further define the use and control of consulting and related services. These measures will have a significant effect on improving administrative procedures.

QUESTIONS SUBMITTED BY SENATOR DENNIS DECONCINI

Question. In light of the President's commitment to national border drug interdiction, what plans are being formulated to provide more funding for NNIBS and when can we expect to see specific budget amendments for the civilian law enforcement agencies with interdiction responsibilities? (Customs and Coast Guard). If there are none forthcoming, why not?

Answer. There has already been a considerable amount of budgetary, managerial, and legislative activity during the last year to enhance the effectiveness of the Nation's border interdiction capabilities. The enactment of changes to posse commitatus legislation have permitted Department of Defense resources and intelligence information to be of greater assistance to the Coast Guard and the U.S. Customs Service. In addition to seizures made by Coast Guard ships, seizures of drugs on the high seas have been made within the last 6 to 9 months by Coast Guard law enforcement personnel embarked on Navy ships. Navy aircraft are used to provide intelligence and aircraft intercept information to the U.S. Customs Service. The DOD's commitment to cooperate on drug interdiction whenever military readiness is not compromised is a major step forward.

During the last several years the Coast Guard has been investing heavily in new ships, patrol boats, and aircraft. These new assets are much more capable than the existing ships and aircraft. The Coast Guard is not taking delivery of this equipment (for example, the first of 41 new jets went into service in September 1982; the first new cutter was commissioned in February 1983; new high-speed surface effect ships have begun operations at Key West; delivery of 90 new helicopters will begin late this year and many other changes). The 1983 and 1984 Coast Guard budgets already contain new funds and additional personnel to operate these facilities. Flight hours by Coast Guard aircraft in 1984 will be 36 percent more than in 1982.

Similarly, the U.S. Customs Service budget contains enhancements in 1984 for drug interdiction, especially in the area of airborne smuggling.

We believe the enhanced border law enforcement program is already having a significant impact on drug smugglers. During 1982 there were major changes in the routes and methods used by smugglers, and domestic U.S. cultivation of marihuana more than doubled over 1981. There has been an increase in airborne smuggling and a decrease in maritime smuggling. It is this shifting, changing aspect of smuggling that has promoted the establishment of the NNBIS. We need to have the ability to quickly detect changes in smuggling activities and to adjust our response mechanisms accordingly. We believe that border interdiction can be made more effective by the creative use of better intelligence information and quick response management decisions. The existing and already budgeted resource enhancements of the Coast Guard and Customs Service are fully satisfactory. We, therefore, do not foresee further budget increases at this time. We will be evaluating the progress made by the NNBIS in the coming months.

Question. Is that about the size of it? If not, could you clarify for this committee how the drastic cuts in Customs evolved during the budget building process last summer and fall when the 1984 budget was being put together?

Answer. The budget decisions on the Customs budget wre based on efficiency improvements, planned and underway, in the commercial processing area. OMB has long been of the view that Customs commercial activities are unduly labor intensive and have not made full use of automation, post-audit an selectivity techniques, or for that matter, the private sector. The OMB reduction was intended to spur more efficient methods in commercial processing that would benefit industry as well as the Federal budget.

Treasury agreed with our rationale, stating that they are in general concurrence with the view that major changes to the tariff and trade and cargo inspection programs are desirable with resultant savings in personnel.

I should also add that the intent of the Customs budget decision was to enhance Customs law enforcement programs. Additional funds were included for Exodus, drug enforcement and the air interdiction program.

In short, the Customs budget decision was freestanding. To the extent Treasury chose to appeal for more funds in other Treasury agencies reflected the Department's priorities.

SUBCOMMITTEE RECESS

Senator **Abdnor**. Thank you, Mr. Stockman. It has been a pleasure. The subcommittee appreciates your willingness to respond to our inquiries in such a candid manner.

That concludes our proceedings for today.

Our next meeting will be tomorrow afternoon at 2 o'clock when the subcommittee will conclude our fiscal year 1984 budget hearings. We will hear from Senator Pell on S. 102 and Mr. Gerald Carmen, Administrator of the General Services Administration. We will meet in SD–124.

The subcommittee stands in recess.

[Whereupon, at 11 a.m., Wednesday, April 27, the subcommittee was recessed, to reconvene at 2 p.m., Thursday, April 28.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1984

THURSDAY, APRIL 28, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2:07 p.m., in room SD–124, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

CONGRESSIONAL WITNESS

FEDERAL LAND SALES PROGRAM

STATEMENT OF HON. CLAIBORNE PELL, U.S. SENATOR FROM RHODE ISLAND

OPENING STATEMENT

Senator ABDNOR. The subcommittee will come to order.

Today, we will conclude our hearings on the fiscal year 1984 requests. We will receive testimony first from Senator Pell, who has sponsored legislation which, if enacted, will have a direct effect on the operation of the General Services Administration. Later, we will hear from the Administrator of the General Services Administration, the Honorable Gerald Carmen.

We certainly want to welcome Senator Pell, and I apologize for keeping you waiting. I had gotten tied up for a few seconds. We appreciate your taking the time to come before the subcommittee this afternoon, and you can proceed in any manner you would care to, Senator.

Senator PELL. I thank you very much, Mr. Chairman, for your hospitality and your offer to let me appear before your committee to discuss the Federal land sales program.

It may seem odd that a Senator from the smallest State when it comes to physical size in the Union is so concerned about this, but it affects our State very directly indeed. And I am deeply concerned, too, because many other Members of Congress are upset with the auctioning off of surplus Federal lands that are really best suited for parks and outdoor recreation and not for private development.

Over the years, the American people have enjoyed State and local parks that were developed through the acquisition of land no longer needed by our Federal Government. This long-standing policy reflected the view that our cities and suburbs relentlessly expand through ex-urbia into the countryside.

The open spaces that are needed for recreation are swallowed up and, once swallowed up, lost forever. Unless these spaces are preserved, our children and our children's children will have none left to meet the recreational needs of our expanding population.

The policy of turning over unneeded Federal lands for parks was abruptly halted early last year by a Presidential Executive order directing the General Services Administration to complete an inventory and appraisal of all surplus property, and then to begin the process of public sales.

This Executive order initiated what could turn out to be the biggest Federal land sale—I would say almost Federal land grab—since frontier days, and has endangered many properties long sought by State and local governments for parks and recreational uses.

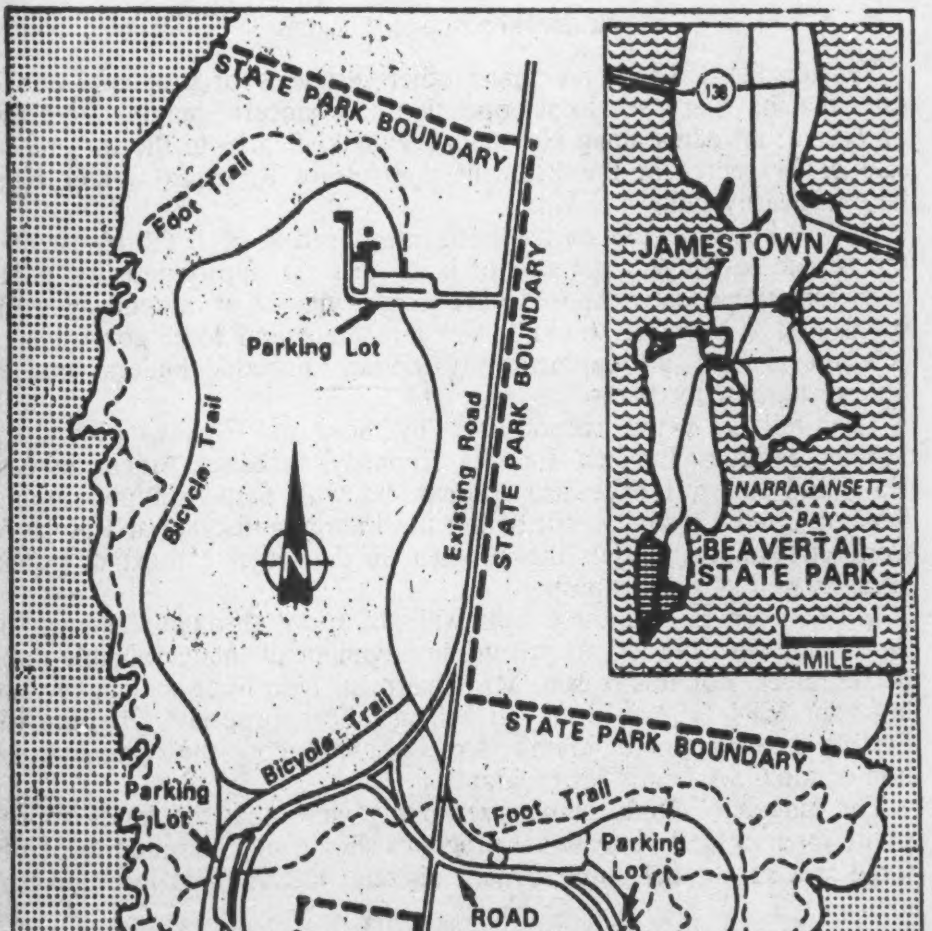
In my own State, several parcels of unneeded Federal land have been put on the block for public auction, even though they are located in the midst of our beautiful Narragansett Bay Islands Park.

One of these properties is the site of a former Naval Reserve Center that overlooks Rhode Island Sound, includes a historic blockhouse, and used to coordinate World War II batteries. This particular site has been sought by the town of Jamestown for a park and had been approved by the National Park Service for this purpose prior to last year's Executive order.

In my view, Mr. Chairman, commercial development of this kind of unneeded Federal land is about as appropriate as putting a condominium development in the middle of Yellowstone National Park,

As you can see, Mr. Chairman, if your eyes are better than mine, you will see what is a State park and then in the middle of it is a little piece of land that belongs to the Federal Government. And it is proposed that that little piece of land would be sold for commercial development; that is, a condominium will come in and make a killing by having the use of the surrounding parkland as its private park for its particular tenants, and it is obviously not the thing to do.

[The statement follows:]


STATE PARK BOUNDARY
Foot Trail
Parking Lot
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138
JAMESTOWN
NARRAGANSETT BAY
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0
1
MILE
Bicycle Trail
STATE PARK BOUNDARY
Parking Lot
Foot Trail
Parking Lot
ROAD SYSTEM
Land to be retained
Foot Trail
Road System
Bicycle Trail
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OTHER PROPOSED LAND SALES

Senator PELL. There are many other instances of proposed public sales that have aroused local opposition and concern, ranging from the 17 oceanfront acres along Honolulu's Waikiki Beach, to the threatened sale of 247 acres of the Beltsville Agriculture Research Center right here in nearby Beltsville, Md.

As you know, legislation has been introduced in both the House and the Senate to prevent the sale of lands that are appropriate for parks and recreational use. I know I have joined with 12 of my colleagues in sponsoring a bill that would insure that State and local governments continue to have the opportunity to obtain unneeded Federal land at little or no cost for parks.

This bill is being cosponsored by Senators Chafee, Moynihan, Specter, Mathias, Burdick, Tsongas, Kennedy, Sarbanes, Biden, Baucus, Hart, and Pryor. I have also cosponsored with Senator Bumpers and Senator Chafee a similar bill before the Energy and Natural Resources Committee that addresses this problem in the larger context of public lands as well as surplus property.

My concern is that these bills will not move through Congress in time to prevent the loss to private development of many valuable public resources. For this reason, Mr. Chairman, I do hope that in reviewing your 1984 GSA budget you will include appropriate language reflecting the concerns of Members of Congress about the current direction of the GSA land sales program.

The language should emphasize, in my view, that the lands appropriate for park and recreational programs should be continued to be offered at a substantial public benefit discount to State and local governments.

I believe we all want to see a continuation of the outdoor recreation programs that enrich the quality of life of our people. Many resources owned by the Federal Government are a part of our national heritage and have a value to our American taxpayers and their descendents far in excess of the amount of money the Treasury would realize from public sale.

Prompt action by us is necessary to preserve these assets for future generations, and I hope that we may be able to work with your committee in developing language that will insure that the land sales program is carried out in a way that will maximize future park and recreational opportunities.

In our bill, we suggest that there be six environmental criteria taken into account: One, the proximity of Federal land to existing park and recreational properties, and that would cover this situation at Jamestown where you have the Federal land surrounded by parkland; two, the suitability of the Federal land for public park and public benefit use; three, compatibility of park and recreational use of the property with the existing use of surrounding properties; four, ownership of the surplus property prior to the Federal ownership. What was the history? In this case, the land was given over gratuitously to the Federal Government, not for the Federal Government to make a quick killing out of it.

Five, the previous designation of the Federal land as a habitat for threatened or endangered species; and, sixth, the inclusion of the Federal land or its eligibility for inclusion in the National Historic Register.

Mr. Chairman, I am prepared to answer any questions that may be of help.

Senator ABDNOR. Well, thank you, Senator Pell. Do we have that last page of your statement?

Senator PELL. No; I was ad-libbing from some notes of mine.

Senator ABDNOR. Oh, I see.

Senator PELL. But these are the criteria that are in the bill, in S. 102, that we believe should be used.

Senator ABDNOR. Fine. As I recall, that is the land we were talking about in the continuing resolution.

Senator PELL. That is the same land that we referred to in the continuing resolution, and I guess the reason we got so exercised in my State about it is it is a singularly beautiful piece of land.

Senator ABDNOR. I remember you showed me a picture.

Senator PELL. So beautiful that I remember when my father died, he wanted his ashes scattered off that very point.

Senator ABDNOR. Well, this would not put a complete end to the sale of some land. You have a criterion in your bill for it?

Senator PELL. We have these six criteria which would, I think, be of assistance to the Federal Government. It would not clamp the whole thing down. But, obviously, if you have similar situations, I would think it would seem obvious that we should not sell little private chunks of land in the middle of a park.

Senator ABDNOR. But if there was some out in the Midwest or West that really was not part of a park, would your bill cover that?

Senator PELL. It would not cover it unless it met these environmental criteria, although technically it would in that the GSA, under my bill, would be required to notify the Governor of the State that Federal property in the State is being designated surplus.

This would give him time to enter into negotiations with the Federal Government. But, throughout, the State's plan would have to address these six criteria, and if these criteria were not properly satisfied, the land sale presumably would not go through; the land transfer would not go through.

Senator ABDNOR. The bill itself was referred to what committee?

Senator PELL. To the Committee on Governmental Affairs. But we need action; otherwise, they may move ahead, and this is why we are coming to you in the Appropriations Committee.

Senator ABDNOR. I recall that last year, Senator Bumpers put in some language at the time in that continuing resolution. But, of course, that has expired.

Well, you certainly bring up a subject that I know is of great interest to many cities and States throughout the country. I have never spent much time on it, but we are very glad to have your testimony and we may be coming back to you later for your thoughts on parts of this.

I do not know quite how we would work it into the bill, but everything else is done with our appropriations bills, so we will take a good, long, hard look at it. We thank you very much for taking the time to come down.

Senator Pell. Thank you very much indeed, Mr. Chairman, for letting me be here with you.

Senator Abdnor. Thank you.

GENERAL SERVICES ADMINISTRATION

STATEMENT OF GERALD P. CARMEN, ADMINISTRATOR

ACCOMPANIED BY:

RAY KLINE, DEPUTY ADMINISTRATOR

RAYMOND A. FONTAINE, ASSISTANT ADMINISTRATOR FOR PLANS, PROGRAMS, AND FINANCIAL MANAGEMENT

WILLIAM B. EARLY, JR., DIRECTOR OF BUDGET

PATRICIA Q. SCHOENI, ASSOCIATE ADMINISTRATOR FOR ADMINISTRATION

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. Our next witness is Gerald P. Carmen, head of the General Services Administration. He has a number of his colleagues with him. Mr. Carmen, it is good to have you back again with us. We enjoy working with you and your people.

You have a big, big job when you deal in this area, and you have come a long way. Possibly, you would like to introduce the people who are accompanying you today, and you may proceed in any manner you would care to.

Mr. CARMEN. Thank you, Senator. I am pleased to appear before you today to discuss the General Services Administration's 1984 budget request. Accompanying me are Ray Kline, Deputy Administrator of the General Services Administration; Pat Schoeni, our Associate Administrator for Administration; Ray Fontaine, Assistant Administrator for Plans, Programs, and Financial Management; and Bill Early, Director of Budget.

PREPARED STATEMENT

With your permission, Mr. Chairman, I would like to submit my statement for the record and answer any questions that you or other committee members may have.

Senator ABDNOR. Without objection, the whole statement will be made a part of the record.

Mr. CARMEN. Thank you.

[The statement follows:]

STATEMENT OF GERALD P. CARMEN

I appreciate the opportunity to appear today to discuss the General Services Administration's 1984 budget request, and to highlight some of our major goals, accomplishments and concerns.

When I testified before this Subcommittee last year, my primary goals were to place agency operations on a cost effective basis, to improve the level and quality of services provided to our Federal customers, and to better manage the Government's real and personal property assets. I am pleased to say that we are making considerable progress toward those goals.

We are running GSA in a more business-like manner. We have concentrated on improving the quality and timeliness of services we offer to agencies. At the same time, we have become a more efficient, cost effective organization. The workforce is significantly smaller. By the end of fiscal year 1984, total average employment will have declined by 14.6 percent since 1981, and almost 18 percent since fiscal year 1980. Most of this reduction was accomplished through attrition, with fewer than 160 involuntary separations because of appropriation decreases. We have also streamlined and realigned our organizational structure, and are continuing to emphasize reduction in administrative overhead costs.

While the specific program accomplishments I will note later speak for themselves, one general indicator of our success is that agencies are relying more on GSA--a sign that we are providing better services. We are proud that our business is growing. Since we are concentrating on programs which provide agencies materials and services at the lowest possible cost, we believe a growing GSA reduces or avoids increased expenses at other agencies.

Using estimated obligations as an indicator of business volume, our 1984 program will total almost $6.5 billion. Of this total, the programs on which this Subcommittee will take action comprise over $2.7 billion: about $600 million in appropriations and $2.1 billion in new obligational authority for the Federal Buildings Fund. The balance reflects effort financed by revolving funds and other direct customer reimbursements, proprietary receipts automatically available under permanent law, and about $1.5 million in current appropriations under another subcommittee's jurisdiction.

Our request for new 1984 appropriations is $600,036,000. Compared with enacted and requested supplemental appropriations for fiscal year 1983, this represents an increase of $25,345,000, or 4.4 percent. Without discussing all the details, I think that several points are important.

First, the program actually reflects an initial decrease of $17 million related to cost savings initiatives and termination of one-time programs. This, however, has been offset by increases of almost $43 million. Of the latter, $24.8 million relates to non-program cost growth, chief of which is $18 million for increased Standard Level User Charge (SLUC) billings, a subject that I will address in more detail later. Another $17.8 million is being requested for new program investments that will offer future productivity or cost benefits.

Looking at the program in a different context, the percent of total business volume related to appropriation-supported management and administrative costs has steadily declined over the last several years, and in fiscal year 1984 will be the lowest it has ever been. This kind of relationship is a basic consideration in any successful business operation and is, I believe, as important as absolute dollar comparisons in judging cost effectiveness of our request.

As I mentioned earlier, one of our major initiatives has been to streamline daily operations through organizational realignment, and the 1984 appropriation request has been structured accordingly. Throughout the justification materials for each account, 1983 data have been adjusted comparably so that your review can concentrate on actual changes in 1984. This appears to have also created some confusion, however, which I would like to clear up. Regardless of budget displays, we have not changed in any way the enacted 1983 appropriation structure, and any funding realignments associated with functional transfers have not altered the purposes for which appropriations were originally made. My staff will be glad to provide you with any necessary reconciliations.

For 1984, we are proposing one actual change in appropriation structure, the establishment of an "Operating Expenses, Personal Property" appropriation to consolidate previous operating expense accounts for the former Transportation and Public Utilities and Federal Supply Services, now a single organizational unit. The "Operating Expenses, Information Resources Management" item is only a change in account title.

Under the Federal Buildings Fund, our 1984 request for new obligational authority is $2,148,143,000, a net $182,262,000 over amounts provided in 1983. While this is a significant increase, over half is required simply to offset increased costs of fuel, utilities, purchased goods and services and commercial space rental. The balance essentially reflects an expanded new construction program and accomplishing certain efforts that had to be deferred from 1983 because of constrained SLUC income.

As a totally related matter, I would like to emphasize that fiscal year 1984 Standard Level User Charges (SLUC) for Government-owned space will be restored to commercially equivalent rates, as required by statute. Since 1983 SLUC billings were frozen by Congress at 1982 levels, this will represent a substantial increase in 1984 costs for all agencies, GSA included. As you hear complaints about these "exhorbitant" charges, we realize that there will be pressure to reduce SLUC rates and achieve a budgetary windfall. This, however, would constitute a temporary action that complicates the solution of a long-term problem: the need to reduce Federally occupied space in total, and to achieve the most cost effective distribution of that total between Government-owned and leased space. The impact of SLUC increases on the budget could be minimized by agencies reducing the space they use or by their absorbing the increase within their appropriations.

Although we have issued revised standards that will result in decreased occupied space, we must not discount present fiscal pressures as an incentive to economize. If agencies receive a de facto operating subsidy through artificially depressed SLUC rates, there is little need or incentive to reduce that element of overhead. Also, SLUC rates are the best approximation of the true cost to the Government of using a given space for an activity, placing the true cost with the program rather than hiding it in a subsidy or another unrelated budget.

Further, SLUC billings are the principal source of income which finances real property operations and support under GSA's Federal Buildings Fund. As intended by the Public Buildings Act, annual SLUC income is supposed to exceed annual operating costs in order to generate a reserve for construction and acquisition of Government-owned facilities. The high cost of commercial space, reflected in SLUC rates, underscores the reason for our goal of increasing the proportion of the workforce in Government-owned space from 60 percent to 80 percent. If 1984 SLUC rates were reduced, potentially hundreds of millions in revenue would be lost. This would not only reduce or eliminate the financing of new construction and acquisitions, but could have a severe impact on basic ongoing operations and services reflected in the 1984 budget.

I would now like to address briefly a number of initiatives that we have instituted which are aimed at improving the quality and timeliness of the services we offer to customer agencies.

o In the public buildings area, revisions to the Federal Property Management Regulations are underway which will reduce Government-wide space standards to 135 square feet per person; this could result in long term savings approaching $1 billion. In the near term, leasing procedures have been streamlined and buildings services improved. We have begun a vigorous program to outlease vacant GSA-controlled space to commercial tenants. Major emphasis is also being placed on reducing the percentage of the Federal population that is housed in leased space.

o Improvements in our supply distribution system have greatly reduced procurement leadtimes and increased responsiveness. The time it takes to fill orders from our stock items has been reduced from 23 to 6 days. We have also simplified procurement procedures, shifting to greater reliance on commercial item descriptions, which has reduced paperwork, encouraged competition, and lowered costs. We have opened a furniture reclamation center in the Washington, D.C. area which rehabilitates and recycles used office furniture at about one-half the cost of new items. It has been very successful, with an estimated savings to date of about $900,000, and expansion of the concept has the potential for future savings.

o We are completing development of a single, uniform Federal acquisition regulation which will apply to all civilian and Defense agencies, and worked with the Office of Federal Procurement Policy to develop Government-wide policy for contractor debarment and suspension. GSA now compiles and issues a monthly list of debarred/suspended contractors/parties for the use of all Government contracting offices.

o Our attempts to contract out in-house services that the private sector can perform at less cost have been hampered by restrictions in the 1983 continuing resolution that prohibit contracting for certain services. We will be looking at ways to meet congressional concerns about jobs for veterans while at the same time reducing the costs of these services. We also will be working to see that the Federal workforce performing these services in-house is as effective and cost-competitive as the private sector.

o About $42 million in annual savings is being realized through airline and hotel discounts for Federal employees on official travel. We are also continuing to audit transportation charges by commercial carriers to detect and recover overcharges. Approximately $17 million in such overcharges was identified last year.

o Government telecommunications costs have been reduced by $18 million per year through the competitive award of contracts for 8,000 communications circuits. A commercial toll management program will further decrease annual costs by $8-$10 million.

o Audits and investigations by our Inspector General's Office have identified $176 million in potential savings or cost avoidance. Our internal Program Control and Oversight offices will ensure that these recommendations, as well as those of GAO, are carried out.

While we think you will agree that these are noteworthy achievements, we believe we can and will do more. I have proposed to the President a number of legislative initiatives, most of which revolve around two central themes: to clarify GSA authority to centrally manage and regulate appropriate Government-wide administrative functions; and to authorize the conduct of various programs on a more efficient and buisinesslike basis. On the latter point, we are referring both to changes which would permit our managers to use certain tools and methods available to their counterparts in private industry, and to changes that would allow many of our programs to be operated on a full cost recovery basis. The effects of these will not be reflected in the budget until transmittal and passage of enabling legislation.

Before closing, I would also like to mention our efforts to identify and dispose of surplus Federal real property under the President's Improved Asset Management Initiative. While management of this effort is among the increases supported by our direct appropriations, we will also be making expanded use of contracts for commercial appraisers, auctioneers and brokers to accelerate sales. The cost of such contracts, financed from sales receipts under permanent authorization, will grow from less than $1 million in 1982 to $25 million in 1983 and $47 million in 1984.

Mr. Chairman, this concludes my prepared statement. I would be happy to elaborate further on any areas of interest to the Subcommittee.

STANDARD LEVEL USER CHARGE

Senator ABDNOR. You are not going to take any time at all? Good. We must learn what makes you so efficient, Mr. Carmen. [Laughter.]

Mr. CARMEN. I might add, Mr. Chairman, that I would accept Senator Pell's additions to the appropriation process if you would accept our industrial funding request at the same time. [Laughter.]

Senator ABDNOR. I wish he were here to hear that.

I assume that you anticipated that the first question I would ask would be about SLUC because we run into it in so many instances as we go over our budgets. You know, too, that we froze the fiscal 1983 increase.

GSA's effort to recoup that is causing large increases for most of the agencies who are coming to us for their money. I am not opposed to the idea that agencies should pay for the space they utilize, but I do have some problems with the huge increases that we are facing in 1984.

I would like for you to briefly outline the SLUC program from its beginnings, where we stand today, and how it is handled, and all that. Let me say that your pages I have received in explanation of SLUC are very good. I read them over today and I have a better understanding now than when I put these questions together.

Mr. CARMEN. I think the acronym SLUC is unfortunate. The equivalent in the private sector for SLUC is rent, and perhaps if we discuss it in terms of rent, it would be more easily understood.

By way of example, if the Office of Personnel Management—OPM—hired all the people that worked in Government and then assessed the cost of employees to the various agencies, that would parallel the way we handle rent for agencies. By the agencies suggesting to the Senate that they only pay 80 or 90 percent of the rent cost, this is the equivalent of them saying, in my example, they will only pay 80 or 90 percent of the salary cost of their employees, and asking OPM to subsidize the difference.

We are simply reflecting the commercial equivalent cost of space to those that use it. The idea of a partial free ride on the space which you use is not appropriate from a management standpoint as it distorts the total program costs associated with an agency mission.

I think I will ask Ira to discuss the process, please, for us.

Senator ABDNOR. Would you introduce yourself for the record?

Mr. CARMEN. This is Ira Jekowsky. He is responsible for PBS planning and budgeting.

Senator ABDNOR. Fine; go right ahead.

Mr. JEKOWSKY. Senator, with your permission, I would like to use a few charts to illustrate what we do with the SLUC collected.

Senator ABDNOR. Can you speak just a little louder?

Mr. JEKOWSKY. Certainly. The process by which GSA charges rent evolved from the practice prior to 1975, when agencies were provided space without any cost being shown in their budgets. GSA received a direct appropriation for that space, therefore, agencies did not have to justify or show the cost of the space as a program cost in their budgets. Consequently, there was no financial incentive for agencies to minimize their space requirements and the associated cost to the Government.

Beginning in 1975, with the creation of the Federal buildings fund, GSA began to charge a commercial equivalent rental which reflected the value of space agencies occupied. The rental rate setting process has evolved from 1975 to its current process, which basically includes three steps.

First, appraisals are made of the buildings in our inventory to establish a base rate for each building. This rate is then adjusted to reflect the time span between the date of the appraisal and the budget year, some 21 to 45 months in the future, and a protection cost is added to that rate, to reflect the cost of protection not normally provided to commercial tenants. This process results in a rental charge to agencies which approximate what agencies would pay if they were to obtain the space and services directly from the private sector.

Mr. CARMEN. Why don't you then show him the BOMA chart? This really deals with the problem. While agencies are fond of speaking about specific cases where the rental seems to be exorbitant or large, these are the average figures that we charge the Government agencies for space.

If you can see from where you sit, Senator Abdnor, historically, or at least up through 1981, the Government rent has been below what the private sector rent has been. BOMA, the Buildings Owners and Managers Association, produces reports which reflect average rental rates occurring in the private sector.

Do you want to go into that a little bit?

Mr. JEKOWSKY. Yes; this line reflects office space charged beginning in fiscal year 1980 through the current budget proposal of fiscal year 1984. Beginning in fiscal year 1980, GSA's average charge was $8.09 per square foot, compared to BOMA's charge of $9.18. That is, on the average, $1.09 less per square foot than the average market price of private industry.

That trend continued in fiscal year 1981 with the Government charging $8.53 versus the $9.69 charge in the private sector. BOMA has not published its 1982 data, but our average rate for fiscal year 1982 was $9.78. Our average rate for fiscal year 1984 is projected to be $12.90 per square foot.

While office space represents an average charge of $12.90 per square foot, our overall charge, including all types of space is $8.82 per square foot.

Senator ABDNOR. That does not sound like the figures I read somewhere in this Federal building fund I have in my book. It was stated there that the average rental cost of office space in many urban cities has more than doubled in the last 5 years.

Mr. JEKOWSKY. Yes, sir. This is an average which reflects 7,600 buildings. There have been some significant increases in some major cities primarily for office space while this average rate of $8.82 is for all types of space, such as warehouse and parking which makes the average for all types of space less than for office space alone.

Senator ABDNOR. Well, let me ask you something. I know this is what we passed in Congress and you are following the law, but this does not do that much toward trying to make the agencies tighten up. I mean, they know we have got to put the money in.

This year, some of these accounts are up by 20 percent in rents, and you could argue that some of that might be brought about because of the actions the Appropriations Committee took last year.

But, in reality, I do not think we are going to discourage agencies too much. They know we have to put the money in. I was a little unhappy to see how high OMB's was yesterday, but let us quit kidding ourselves. They are going to have to have the money and we are going to have to appropriate it.

Congress thought the purpose of this was going to slow people down and use less space. Do you see any reason why this would do it, knowing that if they get by OMB in their budget they are going to come up and ask for it anyway, are they not?

In the long run, it has to be you or OMB or somebody saying, "Look, you do not need all that space."

Mr. CARMEN. Well, we are now feeling, and I think the Government is now feeling, the pressure of correct pricing. Part of what we hear out in the Government is that these rates are starting to pinch. And if Congress is firm in the budget process and insists on controls throughout the Government, then we think that the pricing that we have in effect will work the way it is supposed to work; it will bring down the amount of space that the Government uses.

As a matter of fact it is not the price of space that is excessive; it is the use of space that is excessive. When you subsidize it, you condone that excessive use.

Senator ABDNOR. Do you think that if we see the figures, it may slow us up a little bit?

Mr. CARMEN. We are trying to do what we can. We have a space initiative to reduce space utilization rates to 135 square feet per person and some other measures that we hope will help. But subsidizing the use of space does not encourage being thrifty about it.

SLUC RATES

Senator ABDNOR. Is every building in every location treated separately? You have formulas; I can see that. But what happens in Aberdeen, S. Dak., could be a lot different from what happens in Washington, D.C.

I know you average out the inflationary factor or the increase, but you do not put a flat increase across the board.

Mr. CARMEN. Each building is appraised individually on a 3-year cycle and is priced out on a basis of its quality and the marketplace where it exists.

Senator ABDNOR. It is a little complicated to me. You have a way to adjust those other 2 years; you have a formula, do you not? Do you take an inflationary rate of that area for buildings, or do you take one across the Nation?

Mr. EARLY. The numbers we are using today are the OMB-approved inflation factors for the coming budget year. They are done on a nationwide basis and are applied to that individual building. The building is appraised in its local area, but the projected inflation rate is the national average.

Senator Abdnor. That is really not a very fair one. Your fund ought to be growing. For instance, we will sell you all kinds of buildings and rent them to you for a lot less than the inflation factor that had to go in it in many parts of the United States.

I grant you that in Washington, D.C., it seems as soon as a building goes up, someone is grabbing it. It never ceases to amaze me. But other places would be more than happy—they are competitive enough with other buildings that those rates are not going up that greatly.

As a matter of fact, I will bet that there are some areas of the country where the rent has hardly gone up at all—some, because of increased costs of maintenance, but nothing like it would be in this city.

What I was wondering is how do they arrive at that inflationary factor. Did they just take what the inflation was for the Nation on everything? It is all money going into the Government. Maybe I am being too concerned about it, anyway.

Mr. Early. In the past, we have used the Building Owners and Managers Association's building rates, which were the inflation rates that they had encountered in the private sector.

In the fiscal year 1983 budget, in conjunction with OMB and with projected reduced inflation rates, we stopped using that rate factor and starting using the projected inflation factor of the OMB.

Senator Abdnor. I bet you that there are a lot of areas in this country where you are getting a higher rent as a landlord than the private sector with their buildings that they are offering,

Mr. Carmen. Well, let me deal with that a moment. Mr. Chairman, I think we have discussed this. We considered the Public Buildings Service a problem when we came into office and took it over.

Senator Abdnor. All right.

Mr. Carmen. We have been working on that problem, and the new Commissioner and the new people at PBS have made enormous progress.

One of the things that is not as perfect as it might be would be the way that we arrive at rents, and we are working on that process. The process, though, does not have an impact on the fact that the amount of space should be costed out as competitively as possible and, in my opinion, should be made as dear as possible to make people conscious that they are using something of high value.

Normally, when you talk about a depressed market in which rents are lower than, say, in San Francisco or New York, the appraisal which comes in on that property really reflects the depressed market.

The inflation factor accommodates what would be a national average of inflation, but the main element which determines the SLUC is the appraisal which would reflect the appropriate rate for a depressed area.

So, when you say that perhaps Hooksett, N.H., is a market which is not exploding as San Francisco or some other areas might be, that is taken into consideration when the appraisal is done. And the impact of the indexing over the 21 to 45 months is really not as dominant a feature as you might expect. I might also add that procedures do exist which allow agencies the opportunity to have SLUC rates lowered if the SLUC rates do not appear consistent with commercially equivalent space.

Senator ABDNOR. Are you continually working on this to get it more in line with the area? As I say, it is not as though these are individual groups; it is all the Government. But when you look at the appropriations requests, we see the percentage of increases and it just makes you wonder if it is really that high.

How did we fall so far behind in OMB? Can you give us that one? Is it because of the New Executive Building?

Mr. EARLY. No, sir. The real problem existed prior to last year, the rates that we agreed to put in effect were fixed for 3 years. We do the appraisal every third year, and we agreed when we did that appraisal that we would establish a rate, give it to the agencies, and that rate would stay the same for 3 years.

So, when we put in our expected inflation factor, we were stuck with that. Inflation in those years became very high and our rate, being fixed, fell substantially below the private sector price. So, when reappraisal time came up, the appraisal reflected a very large increase.

Similarly, if you are in a private office building and you have a 5-year lease—in the late 1970's, we had a high inflation rate, and if that 5-year lease was up for renegotiation, there would be a very large jump with the new negotiated contract. That is what occurred in fiscal year 1982.

Senator ABDNOR. I know you appraise every third year, but I thought the increase went up each year.

Mr. EARLY. In the past, we have projected inflation rates factored in for a 3-year average and fixed the rate for 3 solid years.

Senator ABDNOR. But you do have an inflation factor in for those 3 years?

Mr. EARLY. Yes, sir. Once we established it, we did not change. If the inflation rate happened to be higher, and in that case it was, we could not change the rate. We now change the inflation rate annually.

Also, the other contributing factor to the large jump in the rates for fiscal year 1984 as compared to the rates that we are charging in fiscal year 1983 is the fact that Congress froze the fiscal year 1983 rates at the fiscal year 1982 level. Therefore, you are seeing a 2-year jump from fiscal year 1982 to fiscal year 1984.

PROTECTION FACTOR

Senator ABDNOR. Let me ask you about that third factor in your formula, the protection. Now, does anybody pay for protection whether they need it or use it or not?

Mr. EARLY. The protection factor for which we have been charging was based on the average cost of the national protection program where we felt that we were giving a level of protection that was greater than you would get in the commercial market.

Senator ABDNOR. Yes; but some do not even need it. This is related to my parochial interests but I can think of one Federal building where a Federal judge and Federal law enforcement need protection.

I can name offices like mine up and down the line where we do not offer any more protection than the man in the Moon. But everybody is paying the same rate for protection.

Mr. EARLY. In the past, that was the factor applied. We have been reevaluating the protective needs and we are considering eliminating the cost factor. We plan to remove it for fiscal year 1985 billings.

Mr. CARMEN. The reason I paused on that question is I think the protection cost is about 23 cents a square foot, on an average, so it is not a major factor.

Senator ABDNOR. You collect the funds as rent and then put them in a building fund and maintenance fund?

Mr. CARMEN. Yes; we do that.

Senator ABDNOR. But everything that comes out of there has to be authorized by the Congress, is that right?

Mr. CARMEN. That is right.

Senator ABDNOR. How about the maintenance?

Mr. EARLY. The Federal buildings fund receives the resources for space and services that are provided to the Federal sector. Those resources are then allocated to us through this committee for each of the six program areas.

FEDERAL BUILDINGS FUND

Senator ABDNOR. How does it relate to building costs and buildings of the past? Are we keeping ahead of it or even? How big is that fund now?

Mr. CARMEN. Let us run through the fund. Ira Jekowsky will put that chart up and we can go through the Federal buildings fund with you.

Mr. JEKOWSKY. What I would like to do is quickly show you the source of our income, for the fiscal 1984 budget, and then the application of those funds.

Quite simply, we have three sources of income. As we have discussed, we have our SLUC income that we are charging our tenants. We carry over from previous years unspent new construction and repair and alteration funds that have previously been appropriated. We also carry forward cash receipts in the Federal buildings fund that we do not have authority to spend.

Senator ABDNOR. What is that for?

Mr. JEKOWSKY. The $1.7 million was left over from fiscal year 1983.

Senator ABDNOR. I mean, give me an example.

Mr. JEKOWSKY. That would be where our SLUC collections exceeded our authority to spend that money. So, we collected the receipts, but we need congressional authority to spend the funds.

Senator ABDNOR. All right.

Mr. JEKOWSKY. For fiscal year 1984, $2,050.5 million will be collected through that year's SLUC receipts.

To answer your question on how we spend the money, there are six particular programs that we are asking for new authority on in this fiscal year: Our construction program of $132.5 million; our repair and alteration program of $74.7 million; our real property operations program, which is our cleaning, maintenance, protection, and contracting, of $686.5 million; our purchase contract program of $145.5 million; our rental of space budget, which is $880.5 million; our program direction or our overhead account of $103.5 million, bringing us to $2,023.2 million of new authority we are requesting.

As I mentioned before, we expect to carry forward almost $300 million of previous years' new construction and repair and alterations funding. We also will have in the fund $29 million of cash receipts that are not programed.

Senator ABDNOR. Fine. We have that breakdown here somewhere.

Mr. CARMEN. We can submit a copy to you.

Senator ABDNOR. No, no, that is all right. Somewhere in your explanation, it did not give the amounts, but it gives the categories that you have there.

So, we authorize the buildings up here and appropriate, but I am sure I need not tell you that sometimes a building gets through that has not even gone through the authorizing committees.

But it just automatically comes out of that fund if money is put into some appropriations bill for a certain building and a Senator or Congressman is successful in——

Mr. EARLY. The construction of new buildings and the large repairs of over $500,000 are authorized by line item and by building, by this committee and we may not spend it for those projects without this committee's approval.

Senator ABDNOR. Can we throw your budget off course if we suddenly add in a building that was not on the drawing boards? I mean, somebody says, "I want this building."

Mr. EARLY. Yes, sir. The $29 million would be applied to that type of situation.

Senator ABDNOR. I see.

Mr. EARLY. On occasion, the Congress will indicate that we should build or repair a building that was not planned, and they will indicate that some of the unappropriated receipts like that $29 million is to be spent for that building.

Where the Congress requests us to build a building in excess of those resources, we cannot accommodate them unless the Congress appropriates moneys to the fund, which they have done on occasion.

Senator ABDNOR. I guess that on those occasions, they just take it out of the general fund.

Mr. EARLY. Yes, sir.

Mr. CARMEN. We have not had that situation since I have been with GSA.

Senator ABDNOR. Fine. You do have a projected list for the years ahead ongoing, is that right?

Mr. CARMEN. Yes, sir.

Senator ABDNOR. You put out a kind of a master plan?

Mr. CARMEN. Well, we do not like to call it a master plan, but we have a general strategy that we adhere to, more or less. [Laughter.]

LEASING OF SPACE

Senator ABDNOR. Now, you do lease space in some cases to commercial tenants, is that not right?

Mr. CARMEN. Yes.

Senator ABDNOR. Does that bring in much? Is that a big item? Are we doing a lot of that?

Mr. CARMEN. Well, as space requirements are lowered as a result of the 135-square-foot space reduction drive and as vacancies show up in existing leases, the outleasing program will grow.

Senator ABDNOR. That is that one up there, OK.

Mr. EARLY. It is in the neighborhood of $6 million in the current program.

Senator ABDNOR. And you only do that when you have the space available that is not occupied, is that right? You give priority to any Government tenant?

Mr. CARMEN. Yes, sir.

Mr. EARLY. When we have, as the Administrator indicated, vacant space, we are able to outlease that space to non-Federal tenants.

Mr. CARMEN. As a personal opinion, I do not think that the Government should be in the real estate business.

Senator ABDNOR. I agree.

Mr. CARMEN. When vacant space exists and we have no use for it, we really have no other choice but to outlease the space.

PROPERTY DISPOSAL

Senator ABDNOR. Well, I caught your original comments on Senator Pell's bill, but what else do you have? Do you have any comments regarding it?

Mr. CARMEN. Well, I share the Senator's concern for parks and recreation areas. I come from the State of New Hampshire, which is another one of those States that has a great deal of tourism and, like many States, is a beautiful State. So, I share his concern.

I think the bill is too sweeping and would really tie up our disposal process to the point that we would almost be put out of business, so to speak.

Senator ABDNOR. Is there any way you could do some of the things?

Mr. CARMEN. Well, it is a little like calling fire where there is not any. In the last 2 years that I have been at GSA, I can think of no area in which we have had a concerted concern among the public to convey a piece of parkland that we have sold.

So, the issue is not so much legislation; the issue is really the type of concern we show in disposing of property.

Senator ABDNOR. Well, that is true.

Mr. CARMEN. Yes.

Senator ABDNOR. I do not know how close it was to being put on the selling block, but that particular tract of land he was talking about—I remember discussing with him on the floor of the Senate last year. It is right in the heart of a park.

I can understand some private group wanting to buy that; it would be tremendous. But at the same time, it is in the middle of the park and should stay in the park. I mean, that has to be a judgment for you and your people. I have not seen the land, but from the map it certainly looks like it would have been better left to the city or the State or give them an opportunity to buy it.

You would not agree with that, I take it?

Mr. CARMEN. Well, I would not pass judgment either way on it. I think our initiative is to recognize that this Government has millions of dollars of unused property. A lot of it in the areas that I am concerned with consists of empty buildings and plants and deteriorating structures. So, not all of it is parkland or this type of land.

I am concerned that we do not hastily do anything to stop the whole disposal process. I think it is a fair political process, and we certainly have a proper screening procedure in which, when we do move to dispose of these properties, the local population through its governing bodies makes a judgment when they hear about our planned property disposals.

They also contact their Congressmen and their Senators, and that puts a review process into motion and we are very responsive to requests for review in light of local concerns. When we get a call from a Senator Pell or a Senator Chafee, or when we hear from local people, their views go into our decision process.

But the program does need a considerable amount of balance and we try to maintain that balance, and at the same time carry out the President's initiative for returning to non-Federal ownership these Federal lands that are underutilized or not used.

You know, there is a serious economic loss when Federal land is not returned to the States or to the private sector in a rapid fashion, even more than the money which we get for it. We have properties around this country that stay out of the mainstream of private economic activity for periods of time which I feel are excessive because the laws and regulations result in delays and other problems.

So, we have to find a better way of determining whether it is a park or should be a park or recreation land, or should be sold for some other purpose. But I do think that this Senate bill would not be helpful to our process.

Senator ABDNOR. I appreciate your comments. My point was that there might be some proposal that could be worked out, because that gives the Members a powerful case to take to the floor. At least as it looks on the map and from the story behind it, it was just a mistake. But you can see he has many sponsors on his bill, and that is of great concern.

On the other hand, when you go out West where I come from, you would have to agree that there is a lot of land not suitable for parks that could be put to use if someone would be willing to put it on the tax rolls.

There are definitely two sides to the thing and I am just wondering if there is some way that we could get a meeting of the minds.

Mr. CARMEN. I might also say that there probably should be a distinction in some of the recreation and parkland as to whether the Federal Government should pick up the cost of providing it or whether a State or local community should pick up the cost of providing it.

In some cases, where we are disposing of this potential parkland or similar beautiful locations, it may well be proper for the State to say, "We would rather have it dedicated for a park," and buy it. Do not forget that all of the people of the United States in many cases have paid for this property.

I do not know the situation in Rhode Island, but it is safe to say that was Federal land which all the people of this country had bought and paid Rhode Island people for. Should not the people of Rhode Island buy it back?

Senator ABDNOR. Well, these are good points.

Mr. CARMEN. Now, I do not know the case of Rhode Island, and I do share Senator Chafee's and the others interest in that property and I think they have a very good case. Rhode Island may be a poor example for us to raise that question.

Senator ABDNOR. I appreciate your comments and I am sure there will be more hearings and discussions before anything comes to pass on the bill. It is very encompassing and should take a lot of consideration and testimony in hearings before anything is done.

SPACE REDUCTIONS

Let us talk for a moment about reducing space. You have attempted to do this wherever you felt it could be done. How much jurisdiction do you have on that? When one of the agencies wants more space or they drop their numbers through Government action or through the administration, are you able to go in there and say, "You do not need this much space now?"

Mr. CARMEN. We are in the early stages of that program right now. It is a Presidential initiative and we have an Executive order to support us on that initiative. We are finding that the agencies with which we are doing business are being very cooperative.

That is another reason why we would like to see the rent remain at the levels which we set in order to be a driving force here. But I am continually reviewing the requests personally that come in for space and looking at their space utilization.

While we are not getting to the 135 square feet for the entire inventory, and we really do not expect to get there for a number of years, we are coming down on almost every application. So, we are very satisfied with the direction that it has taken.

We are down to the 135 square feet within GSA. We have done it, so we know it is double and we expect that the other agencies will be coming along, They have been, for the most part, very supportive of that.

In fact, Mr. Chairman, I think I should say that as far as GSA's initiatives in the cost-saving area, whether it be space or anything else, we have enjoyed a very good relationship with the various agencies. They share the same concerns that we have and are fighting the same budget battles that we are, so I look at it as an effort being made by a team, not just GSA.

Senator ABDNOR. Along that line, do we have areas of the country where we actually have empty space and nearby we are renting private space? Is there much of that going on?

Mr. CARMEN. I cannot give you a specific case right now, but I am sure that there are areas throughout the country where we are developing vacancies. They may be side by side to another building, but we are consolidating as fast as we can.

Senator ABDNOR. You are working on it?

Mr. CARMEN. Well, that is part of the space initiative. We are working to consolidate as fast as we can. Blocks of space do not always fit one way or another and it is not an easy job.

We expect, by the way, the vacancy problem to be our biggest problem in the next couple of years, not the leasing problem.

JOBS BILL

Senator ABDNOR. There is one other area I want to ask you about, Mr. Carmen, and it deals with the amendments that the President has sent the Congress in the budget amendments reflecting the cost of the jobs bill.

What effect will that have on GSA's plans? To follow that up, let me say I was not overly enthused with the inclusion of the building money in the target formula. Could you comment on the effect that will have on GSA's ability to proceed with its planned work?

Mr. CARMEN. Well, we are dealing with $125 million in additional funds. We have taken that out of next year's money.

Senator ABDNOR. Yes.

Mr. CARMEN. We are dealing with this year out of the money which we are discussing now and we are trying to move it ahead so it will have some impact as the Congress wished. I do not really see it as jeopardizing our fiscal year 1984 budget relationship at all.

I think we will have done a reasonably good job in a short period of time. We will have money which we will be working on in the fiscal year 1984 time period, and generally speaking I do not think it will have a serious impact on the way we run our organization.

Senator ABDNOR. Nevertheless, it could disrupt your targeting plans that you have set up. That set out moneys that you were not anticipating, is that not right?

Mr. CARMEN. We will be meeting next week to try to really reorganize and redirect all our repair and alteration work that we have been doing and to see if we cannot become somewhat more effective than we have been in the past.

As you know, our repair and alteration program has been slow. It has not always performed the way it should. We are trying to improve it. This additional money really gives us the opportunity to target a sum of money and to see if we can deliver and perform in a faster manner than we normally do, and we are going to be working that program.

With us, it is a case of having a backlog of repair and alterations that have accumulated over a great number of years. We should be in a position to carry it out without any serious organizational impact.

CONTRACTING PROVISIONS

Senator ABDNOR. I hope the other agencies find it that way.

In another area, your A–76 is on hold at this time and I am concerned about the contracting provisions, You did talk about it in your written statement you submitted. We are anxious to keep up and see how it is working out. We have some concern about it.

Would you like to make any additional comments on that?

Mr. CARMEN. Well, first of all, we share the concern of the Senate and the Congress and the executive branch for the jobs which veterans now hold and we think those jobs should be protected, so we do not have any difficulty with that position.

What we think would have been a better way—and I am not prepared to deal with the language that could be used, but we would have liked to have seen the jobs that veterans hold at GSA be protected, and allow us the ability to consolidate and to move situations in such a way as to fill the vacant slots with contract opportunities.

Of course, the Edgar amendment prevents us from doing this. So, I think that as we have done at GSA since I have been there, we have tried to protect the jobs of the people that work for us, by controlling the openings that appear in a way as to not increase the size of Government or burden the budget.

This limitation that is now put upon us, I think, will affect us considerably. Within our direct real property operations program alone, about $11.5 million in savings expected to accrue during fiscal years 1983 and 1984 will not be realized because of restrictions imposed under the Edgar amendment.

Senator ABDNOR. Have you visited with the Congressman about this at all?

Mr. CARMEN. I think our congressional people have visited on this subject, and it is a difficult one because we face the same problem, by the way, with severely disabled people that work for us. We have been working that problem without legislation to make sure that those disabled people that we had in those types of jobs were not discharged, and we have been very successful with that without legislation.

We think that given the time and the legislative authority, we could have handled this problem in such a way that the veterans would have been protected and the taxpayers would have been protected.

Senator ABDNOR. OK, I appreciate that. Have you had the contracting feature in effect long enough to see any concrete results from it?

Mr. CARMEN. Yes; I think we have, especially in the custodial field. You know, this A-76 process is kind of an interesting process, but what it does is it takes the way we do the work now and then it says, "How would you do the work in the best way as a Government agency?"

Then you develop that cost. Then you go out to bid. The private contractor that is bidding on it has to equal and beat by better than 10 percent the best way that the Government can do it, not necessarily the way that we are doing it.

We have tried to encourage our people to get down to that mode which makes us competitive. As we worked the A-76 process, we expected that many Government jobs would actually be preserved because they would be more competitive and they would be more effective; it would not be contracted out in many cases.

When you get into the custodial type of work, you do find in the competitive process that the private sector has a very serious advantage when it comes to the cost of people. In that area it is very hard for the Government to be competitive.

As far as the higher skills are concerned, when you are talking about mechanics, when you are talking about guarding, and when you are talking about other types of work, there is every opportunity for a well-run Government operation to be competitive with the private sector.

Senator ABDNOR. I appreciate those comments. Listen, I have got to vote and I have a few more questions. Could you stay a little bit longer?

Mr. CARMEN. Absolutely.

Senator ABDNOR. I will hurry as fast as I can.

Mr. CARMEN. Fine.

[A brief recess was taken.]

NATIONAL ARCHIVES GRANT PROGRAM

Senator ABDNOR. I note that no funds are included in the National Archives request for the grant program, Traditionally, Congress has earmarked a sum out of the total without increasing the total.

Now, what effect would that have on the Archives operational budget?

Mr. CARMEN. I do not think it has any effect on the operational budget.

Senator ABDNOR. If it was not earmarked, would there be funds set aside for it?

Mr. CARMEN. What was that question, sir?

Senator ABDNOR. Well, without Congress earmarking it, will there still be funds?

Mr. CARMEN. If money is not appropriated for that purpose and we are ordered to spend it, then it will impact our operation. But if the money is appropriated for it even though we do not request it, then, of course, it has no effect on our operation.

STOCKPILE PROGRAM

Senator ABDNOR. In the very recent past, the stockpile has suffered because of the deterioration of storage facilities. What is the general condition of the storage facilities? Can someone answer that?

Mr. CARMEN. I think that we are in reasonably good shape on the condition of the stockpile storage. In the area of cobalt, we have been investigating and have found it to be in satisfactory shape. So, I do not think we have any real problems that we are not dealing with on a regular basis.

Senator ABDNOR. Are we buying or selling any great amounts at this time?

Mr. CARMEN. We have sold a little and bought a little. The program on the disposal side has been curtailed by the restrictions on the sale of silver. We, of course, think that at this point we should be permitted to sell silver, but we are waiting for a report to be finished that is going to be provided to the Congress.

In the other areas of acquiring strategic materials, I think we are moving ahead within the limits we have, and I think we are in the area of about $56 million right now.

RAPID CITY EXCESS PROPERTY

Senator ABDNOR. I have a subject of parochial interest to me. It regards the coal gasification plant in Rapid City, S. Dak. It has been excessed and the State of South Dakota has begun request proceedings for a transfer.

Now, it is my understanding that your Seattle office is participating in the negotiation. Just let me give you a little background. When the land was donated by Rapid City to the Federal Government, we were led to believe that it was with the understanding that should it ever become excess property, the South Dakota School of Mines and Technology, which is right by it, would be the beneficiary.

Now, I have had conversations with the Governor of my State, and of course he is most interested in its requisition. I know he has written to you and I would like to ask that you take a look at the situation as it stands today.

Mr. CARMEN. As you know, Mr. Chairman, that became a little confused because it was being handled by two divisions within GSA, one which handles personal property and one which handles real property.

We now have brought that together and we are reviewing the whole thing. Within the next 3 weeks we expect to resolve that problem and will have some answers for you.

Senator ABDNOR. Very, very fine. I just am interested in knowing that you are coming to some kind of a decision.

ADDITIONAL COMMITTEE QUESTIONS

I have some other questions that we are going to submit in writing. I want to say that Senator DeConcini did want to be here; he got called into another meeting he felt he had to attend, But Senator McClure, who is chairman of the Interior Subcommittee, has a couple of questions he would like to ask you to respond to for the record. We will just submit them for the record.

I would also ask that we submit the statement of Bernard A. Maguire, Associate Director for National Preparedness Programs, Federal Emergency Management Agency for the record.

Well, there are lots of areas we could go into, but you have been a very cooperative witness today. We appreciate your attendance. These additional questions—those of Senator McClure and those of Senator DeConcini—we will submit them to you for written answers, if that is all right.

Mr. CARMEN. We would be glad to do that.

Senator ABDNOR. With that, then, I thank you folks for coming and I want to commend you on the fine job you are doing.

Mr. CARMEN. Thank you very much, Mr. Chairman.

[The information follows:]

STATEMENT OF BERNARD A. MAGUIRE, ASSOCIATE DIRECTOR FOR NATIONAL PREPAREDNESS PROGRAMS, FEDERAL EMERGENCY MANAGEMENT AGENCY

The Federal Emergency Management Agency (FEMA) is responsible under Section 3 of the Strategic and Critical Materials Stock Piling Act for the development of policies guiding the National Defense Stockpile of strategic and critical materials. In this capacity, FEMA supports the Fiscal Year 1984 budget request of the General Services Administration (GSA) relating to the operating expenses for the National Defense Stockpile. These expenses are needed for conducting the property management and acquisition/disposal activities in maintaining and restructuring the stockpile. FEMA also supports the request presented in the GSA budget for appropriations totaling $120 million from the National Defense Stockpile Transaction Fund established by Section 9 of the Stock Piling Act for the acquisition of stockpile materials in accordance with the Annual Materials Plan (AMP) for Fiscal Year 1984, as transmitted to the House and Senate Committees on Armed Services by the Director of FEMA under date of April 7, 1983.

The Annual Materials Plan (AMP) is the product of a major interagency effort to develop each year a list of acquisition and disposal actions for stockpile materials. The AMP process is conducted by the AMP Steering Committee (AMPSC), chaired by the Federal Emergency Management Agency (FEMA), with the Departments of Agriculture, Commerce, Defense, Energy, the Interior, State, and the Treasury, and the General Services Administration (GSA), the Central Intelligence Agency, the Office of Management and Budget, and the National Security Council serving as designated members. The AMP is a management plan for implementing stockpile purchases and sales in a way that maximizes national security preparedness subject to the limitations of market and budgetary conditions.

The AMP process is designed to encourage maximum participation by the various agencies concerned with stockpile requirements and operations. A preliminary list of stockpile actions is developed through a series of proposals and reviews involving various of these agencies operating through two subcommittees. All of the agencies represented on the AMP Steering Committee then review and may recommend revisions to the proposed list of stockpile actions in the light of their respective areas of interest and competence. The Director of FEMA, assisted by the Administrator of GSA, determines if any changes to the preliminary Annual Materials Plan are required.

The AMP process is initiated by the Resources Preparedness Office of FEMA, which provides a list of goals, shortfalls, excesses, and priorities to the General Services Administration. After an evaluation of the market outlook, the Market and Technical Services Division of GSA proposes quantities of commodities for acquisition or disposal. These proposals are provided to the two AMP subcommittees, which furnish their suggested revisions to the full committee. Differences in these proposals and revisions are then resolved by the Steering Committee and submitted to the Director of FEMA for approval.

The two AMP subcommittees and highlights of their duties are:

Strategic Implications--chaired by the Department of Defense. The designated members are the Central Intelligence Agency, Department of Energy, and FEMA. The primary function of this subcommittee is to determine if any of the materials proposed for the AMP will be affected by anticipated changes in defense requirements.

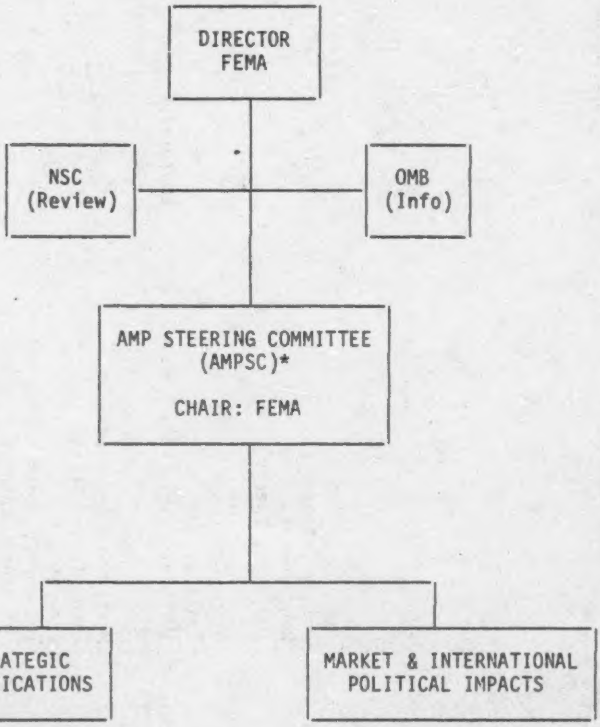
Market and International Political Impacts--co-chaired by the Departments of Commerce and State. The other designated members are the Departments of the Treasury, Interior, and Defense and FEMA and GSA. Under the leadership of the Department of Commerce, this subcommittee evaluates on a case-by-case basis the effects that stockpile acquisitions and disposals will have upon domestic and international commodity markets. Significant trends and areas where stockpile activities could lead to a commodity market disruption are examined. This subcommittee develops market impact statements with assistance from the Department of the Interior (Bureau of Mines) and the Department of Commerce (Bureau of Industrial Economics and the International Trade Administration).

Under the leadership of the Department of State, this subcommittee also determines the international economic and political impacts of stockpile acquisitions and disposals. In particular, the subcommittee determines the impact that stockpile activities could have on earnings of international producers and producer countries, on international trade patterns, and on international agreements.

The Annual Materials Plan is submitted by the Director of FEMA to the National Security Council for review. Simultaneously, a copy is provided to the Office of Management and Budget for information. Any further revisions are made jointly by the National Security Council, Office of Management and Budget, and FEMA. When the Annual Materials Plan is in final form, copies are transmitted to the House and Senate Armed Services Committees for approval under Section 11 of the Stock Piling Act.

The Annual Materials Plan structure and process are depicted in the following two figures.

ANNUAL MATERIALS PLAN (AMP) STRUCTURE


DIRECTOR
FEMA
NSC
(Review)
OMB
(Info)
AMP STEERING COMMITTEE
(AMPSC)*
CHAIR: FEMA
STRATEGIC
IMPLICATIONS
MARKET & INTERNATIONAL
POLITICAL IMPACTS

CHAIR: DEFENSE
ENERGY
CIA
FEMA

CHAIR: COMMERCE-STATE
TREASURY
INTERIOR
DEFENSE
FEMA
GSA

* AMPSC MEMBERS:

FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)
DEPARTMENT OF THE INTERIOR
DEPARTMENT OF THE TREASURY
CENTRAL INTELLIGENCE AGENCY (CIA)
GENERAL SERVICES ADMINISTRATION (GSA)
OFFICE OF MANAGEMENT & BUDGET (OMB)
DEPARTMENT OF STATE
DEPARTMENT OF ENERGY
DEPARTMENT OF DEFENSE
DEPARTMENT OF COMMERCE
DEPARTMENT OF AGRICULTURE
NATIONAL SECURITY COUNCIL (NSC)

THE ANNUAL MATERIALS PLAN PROCESS

Source and Input			Agency Review		Goal Setting		
National Security Council	(Presidentially-Approved Policy Guidance (Scenario, Priorities)						
Commerce	(Consumption Patterns (Industrial Capacity (Agricultural Commodities by Countries (Agricultural Substitution		Unique Defense Requirements (Defense, Energy)		FEMA		
			Other Strategic Implications (Defense, CIA, FEMA, Energy)				NSC
Defense	(Military Requirements (Transportation Losses	---->		---->	Determine Goal By Commodity	---->	Review
			Market and International Economic and Political Impacts (Commerce, State, FEMA, GSA, Treasury, Interior, Defense)				
Interior	(Supply: Non-Agricultural Commodities by Country (Non-Agricultural Substitution						
State	(Political and Economic Factors for Foreign Countries						

Questions Submitted by Senator Dennis DeConcini

QUESTION: Mr. Carmen, I am deeply concerned that, despite this Committee's strong directives contained in the report accompanying S.2916-- the fiscal 1983 Treasury, Postal Service, and General Government Appropriation Bill--and the additional funding provided for the Archives, that GSA has embarked on a conscious plan to effect a 6% cut in the 1983 appropriation by obstructing the hiring of personnel at Archives. Information brought to my attention indicates that with the funding provided in the Continuing Resolution, 1983 (P.L. 97-377), Archives could have a fiscal 1983 FTE workforce of 1,760 on board. However, I am informed on good authority that because of your plan to essentially "impound" 6% of the appropriated funds, Archives will only have FTE of 1,550-- about 49 fewer FTE than Archives had in fiscal 1982. The fiscal 1984 budget request for Archives that we are currently considering would fund an FTE workforce of 1,761. Can you tell this Committee unequivocally that you are not planning to hold back hiring or hold back funding to affect a net reduction in Archives spending in 1983 of 6%? And what specific measures, borne out by written directives from you, have you taken to assure that the directives contained on page 69 of the Senate Report 97-547 are being followed to the letter?

ANSWER: The Senate report language referred to a 6 percent reduction in on-board staff. There has not been a reduction in NARS staff. There were 20 more full-time permanent employees in March (1,582) than last September (1,562) and 10 more than in July 1982(1,572). It has not been necessary to issue any written directives since the proposal was never implemented.

With regard to a reduction in funds, it has always been this Administration's policy to absorb the pay raise whenever possible. This was my objective in GSA and I have notified the appropriations subcommittees of the House and Senate that GSA does not need the supplemental appropriation for the pay raise. This asorption applies to all Services in GSA, not just NARS. It is not possible to hold back funds which have not yet been appropriated. NARS has a small cash reserve, and has submitted a request to hire the staff needed for new initiatives. We are considering that request now.

QUESTION: Mr. Carmen, I also understand that little if any progress has been made to-date to implement the directives contained in the Supplemental, 1983 that call for spending $600,000 for the preservation of House and Senate records. I am informed that no one has been hired to-date and that little money, if any, has been spent. Could you tell us why there is such an apparent lack of movement on this program directed by the Congress?

ANSWER: The apparent lack of movement is due primarily to the fact that NARS currently has no paper conservator on the staff. Efforts have been underway for some time to recruit conservators but these skills are rare and the recruiting process slow.

Because of this, work on the project has been limited to work not requiring these specialized skills. An archivist has worked on the project full time since February, and an archives technician has worked part-time since January. A survey has been completed identifying those documents in need of immediate treatment and the kind of treatment needed. In addition, 35,000 acid-free folders have been purchased and 3,000 documents have been unfolded and flattended. Once the conservators have been hired we expect the project to proceed more rapidly. The project is scheduled to take 4 years.

QUESTION: IN YOUR STATEMENT YOU NOTE THAT THE FEDERAL SUPPLY SERVICE IS RECEIVING MORE ATTENTION. COULD YOU ELABORATE A LITTLE MORE AS TO ITS IMPROVED OPERATION AND EFFORT TO GAIN MORE CUSTOMERS?

ANSWER: FSS HAS WORKED WITH GREAT EFFECTIVENESS IN STREAMLINING ITS NATIONAL NETWORK OF WHOLESALE AND RETAIL SUPPLY DISTRIBUTION FACILITIES AND TO EXPAND ITS CUSTOMER BASE PROGRAM TO GAIN A GREATER PORTION OF THE FEDERAL PROCUREMENT VOLUME INTO THE FEDERAL SUPPLY SYSTEM.

BY THE END OF FISCAL YEAR 1982, FSS HAD:

- CONSOLIDATED SUPPLY DEPOTS FROM 16 to 12.
- CLOSED 9 SELF-SERVICE STORES AND 6 TESTING LABORATORIES.
- OPENED 2 PILOT CUSTOMER SUPPLY CENTERS IN HINGHAM, MA, AND DENVER, CO, AND ESTABLISHED THE FURNITURE RECLAMATION CENTER IN FRANCONIA, VA.
- ACCOMPLISHED A DRAMATIC REDUCTION IN THE TIME NEEDED TO DELIVER SUPPLIES TO CUSTOMER AGENCIES. DELIVERY TIME ON SUPPLY ORDERS HAD DROPPED FROM 40 TO 6 DAYS. IN ADDITION, THE NUMBER OF SUPPLY BACKORDERS WAS DRAMATICALLY REDUCED FROM 400,000 TO 54,000.

WE ARE CONTINUING OUR EFFORTS IN FISCAL YEAR 1983 TO STREAMLINE THE NATIONAL SUPPLY DISTRIBUTION NETWORK. OUR OBJECTIVE TO REDUCE SPACE UTILIZATION BY 1.2 MILLION SQUARE FEET IS PARAMOUNT TO OUR INITIATIVE FOR MAXIMIZING EFFICIENCY OF OPERATIONS. AS EVIDENCE OF THIS COMMITMENT WE HAVE CLOSED THE DEPOT FACILITY IN SAVANNAH, GA, AND PLAN DEPOT CLOSURES IN HINGHAM, MA; KANSAS CITY, MO; AND AUBURN, WA. WE CURRENTLY HAVE FIVE CUSTOMER SUPPLY CENTERS IN FULL OPERATION AND PLAN TO HAVE AT LEAST ONE CENTER IN EACH REGION PRIOR TO THE END OF FISCAL YEAR 1983. THE CENTERS ARE A NEW QUICK ORDER SYSTERM DESIGNED TO ACCEPT MAIL, PHONE, AND WALK-IN ORDERS FOR CONSUMABLE RETAIL SUPPLIES PROVIDING SAME-DAY SERVICE FOR WALK-INS AND 24 HOUR TURNAROUND FOR MAIL AND PHONE ORDERS.

THE FURNITURE RECLAMATION CENTER REHABILITATES EXCESS FURNITURE, THEREBY ELIMINATING UNNECESSARY PURCHASES OF NEW, MORE EXPENSIVE OFFICE FURNITURE. EVEN MORE SIGNIFICANT THAN THE ESTIMATED $1,152,572 IN TAXPAYER DOLLARS SAVED SINCE ITS OPENING LAST APRIL, IS THE FACT THAT THE CENTER HAS SERVED AS A MODEL FOR FUTURE COST-SAVING MEASURES GOVERNMENT-WIDE, SUCH AS THE ESTABLISHMENT OF THE PERSONAL PROPERTY CENTERS IN JANUARY 1983.

THESE CENTERS CENTRALIZE OPERATIONS FOR HANDLING FEDERAL AGENCIES EXCESS AND SURPLUS PERSONAL PROPERTY PENDING DISPOSITION. CENTRALIZATION SIGNIFICANTLY REDUCES STORAGE SPACE REQUIREMENTS GOVERNMENT-WIDE; PROVIDES RAPID DISPOSITION OF EXCESS AND SURPLUS PROPERTY AND REDUCES DUPLICATION HANDLING OF SUCH PROPERTY.

CURRENTLY THERE ARE 6 PERSONAL PROPERTY CENTERS IN OPERATION AND 6 ADDITIONAL CENTERS ARE SCHEDULED TO OPEN BY EOY 1983.

FISCAL YEAR 1983 MARKED THE BEGINNING OF A LONG-TERM EFFORT BY GSA/FSS TO CAPTURE ITS PROPER PORTION OF THE GOVERNMENT MARKET FOR COMMON USE GOODS AND SERVICES (CUSTOMER BASE EXPANSION, INITIATIVE).

TO THIS EFFORT WE ARE STREAMLINING OUR CONTRACTING PROCEDURES AND HAVE DEVELOPED A NEW MARKETING APPROACH UNIQUE TO FSS IN THAT IT 'REACHES OUT' TO THE AGENCIES IN A PROFESSIONAL AND BUSINESS-LIKE APPROACH. ACTIONS INITIATED AS A PART OF OUR MARKETING APPROACH INCLUDE THE FOLLOWING:

- MEETINGS WITH ASSISTANT SECRETARIES OF ADMINISTRATION OF LARGEST OPEN MARKET PURCHASING AGENCIES BEGAN IN MID-MARCH.

- THE 'BUY GSA' CAMPAIGN IS ON TRACK WITH DISTRIBUTION OF POSTERS; SLIDE SHOW PRESENTATIONS TO AGENCY MANAGERS IN PROCESS.

- CUSTOMER 'FEEDBACK FLIERS' ARE BEING DEVELOPED TO MONITOR STORE SUPPLY CENTER AND VENDOR SALES.

OUR TRAVEL MANAGEMENT PROGRAM CONTINUES TO INCREASE SUPPORT AND DOLLAR SAVINGS TO GOVERNMENT AGENCIES THROUGH NEGOTIATED CITY-PAIR CONTRACTS, AMTRAK DISCOUNTS, TRAVEL MANAGEMENT CENTERS AND HOTEL/MOTEL DISCOUNTS. THESE PROGRAMS GENERATED A TOTAL SAVINGS OF $52 MILLION LAST YEAR WITH A PROJECTED SAVINGS OF $80 MILLION THIS YEAR.

FSS NOW HAS CONTRACTS WITH 24 AIR CARRIERS FOR TRAVEL DISCOUNTS ON 465 CITY PAIR ROUTES AND HAS NEGOTIATED DISCOUNTS WITH 2,200 HOTELS AND MOTELS IN 850 CITIES FOR FEDERAL TRAVELERS ON OFFICIAL BUSINESS. CURRENTLY THERE ARE 39 TRAVEL MANAGEMENT CENTERS IN FULL OPERATION IN 28 CITIES AND 24 NEW CENTERS ARE SCHEDULED TO OPEN BEGINNING IN MAY 1983. BY JULY, A TOTAL OF 63 SITES WILL BE OPERATING IN 44 CITIES NATIONWIDE EXCEEDING OUR GOAL OF 55 FOR FISCAL YEAR 1983.

ANOTHER IMPORTANT ACCOMPLISHMENT HAS BEEN IN THE INDEFINITE QUANTITY CONTRACTS PROGRAM FOR LEASED VEHICLES. FSS AWARDED TWO INDEFINITE QUANTITY CONTRACTS IN FISCAL YEAR 1982 WHICH AGENCIES TO MEET THEIR REQIREMENTS FOR LEASED VEHICLES AT A PRICE SUBSTANTIALLY MORE FAVORABLE THAN THAT WHICH WOULD HAVE BEEN AVAILABLE TO THEM AS INDIVIDUAL LESSEES. AS A FOLLOW-ON, THE SCOPE OF THE "NATIONWIDE CONTRACT" HAS BEEN EXPANDED TO INCLUDE A LARGER SELECTION OF VEHICLE TYPES WHICH THE AGENCIES CAN ORDER ON A NATIONWIDE BASIS. VEHICLES CAN BE LEASED FOR A PERIOD OF 10-12 MONTHS WITH AN EXTENSION OPTION FOR AN ADDITIONAL 10-12 MONTHS.

CONCERNING FUTURE TRAVEL NEEDS OF THE FEDERAL WORKFORCE, FSS INTENDS TO SIMPLIFY TRAVEL REGULATIONS, STREAMLINE AUTHORIZATION AND REIMBURSEMENT PROCEDURES, AND INCREASE THE USE OF COMMERCIAL TRAVEL AGENTS. OUR AIM IS TO IMPROVE TRAVEL SERVICES AND DISCOUNTS OFFERED TO FEDERAL TRAVELERS, WITH A GOAL OF REDUCING COSTS TO TAXPAYERS WHILE IMPROVING SERVICE TO GOVERNMENT AGECIES AND THEIR EMPLOYEES.

THE ESTABLISHMENT OF THE CUSTOMER SERVICE BUREAU WITHIN EACH REGIONAL OFFICE CONSOLIDATES ALL FSS LOGISTIC SUPPORT SERVICES INTO A ONE-STOP CENTER PROVIDING ONE FACE TO THE FEDERAL COMMUNITY WITHIN A GIVEN REGION. THE BUREAU WILL BE RESPONSIBLE FOR PERFORMING PROPERTY MANAGEMENT AND RETAIL SUPPLY SERVICES, MANAGEMENT AND OPERATION OF REGIONAL MOTOR POOLS, TRAVEL AND TRAFFIC SERVICES AND RELATED TRANSPORTATION FUNCTIONS.

BEGINNING IN 1983 AND CONTINUING INTO 1984, MAXIMUM EFFORT WILL BE EXPENDED TO BRING A GREATER PORTION OF THE FEDERAL PROCUREMENT VOLUME INTO THE FEDERAL SUPPLY SYSTEM. SIGNIFICANT INCREASES IN PROCUREMENT VOLUMES ARE PROJECTED IN ALL FSS SUPPLY PROGRAMS. IN THIS REGARD, WE HAVE ALREADY

IMPLEMENTED VITAL ACTIONS NECESSARY TO ACCOMPLISH OUR OBJECTIVE BY SEPTEMBER 1984 AS FOLLOWS:

OUR FISCAL YEAR 1984 APPROPRIATION SUPPORTS OUR MAJOR CONCERNS AND COMMITMENTS TO:

- REDUCE COST OF GOVERNMENT:
  - EXPAND CUSTOMER BASE TO $6 BILLION IN 1984 AND ACHIEVE PRICE ECONOMIES OF 20 PERCENT.
  - MAXIMIZE UTILIZATION TRANSFERS TO EXCEED $600 MILLION.
  - INCREASE FULLY OPERATIONAL TRAVEL MANAGEMENT CENTERS TO 84 IN FISCAL YEAR 1984.
  - INCREASE AIRLINE CITY PAIRS UNDER CONTRACT FROM 460 IN 1983 TO 475 IN 1984.
- MAXIMIZE EFFICIENCY OF OPERATIONS:
  - REDUCE GOVERNMENT-WIDE STORAGE SPACE/COSTS BY CENTRALIZING EXCESS/SURPLUS PERSONAL PROPERTY OPERATIONS.
  - STREAMLINE AND SIMPLIFY TRAVEL REGULATIONS AND PROCEDURES.
  - MAINTAIN CUMULATIVE COST PER VEHICLE MILE BELOW 23¢.
- PROVIDE EXCELLENT SERVICE TO ALL CUSTOMERS:
  - MAINTAIN DEPOT WIP AT 7 DAYS.
  - MAINTAIN FILL RATE OF 92 PERCENT.
  - ATTAIN 93 PERCENT ON-TIME RESPONSIVENESS TO CUSTOMER REQUISITIONS.
  - MOVE PROPERTY THROUGH EXCESS CENTERS IN LESS THAN 120 DAYS.
  - MAINTAIN NUMBER OF BACKORDERS BELOW 40,000.
  - ACHIEVE 93 PERCENT ON-TIME DELIVERIES FROM VENDORS.
  - REDUCE SPECIAL ORDER WIP BELOW 45 DAYS.
  - INCREASE NUMBER OF ANNUAL MILES PER VEHICLE TO 12,600.

QUESTION: IS THERE AN ESTIMATE AS TO HOW MUCH WE COULD SAVE IF THE FSS DID THE MAJORITY OF PURCHASING?

ANSWER: FSS CURRENTLY PROVIDES APPROXIMATELY 25 PERCENT OF AN ESTIMATED $12 BILLION IN COMMON USE ITEMS AND SERVICES PURCHASED BY FEDERAL DEPARTMENTS AND AGENCIES EACH YEAR. THROUGH ITS VOLUME PURCHASING PROGRAMS, FSS IS ABLE TO ACHIEVE SAVINGS OF 20 PERCENT ON THE GOODS AND SERVICES FOR WHICH IT IS THE GOVERNMENT'S CENTRAL CONTRACTING AGENT. BY INCREASING FISCAL YEAR 1983 SUPPORT LEVELS FROM $3 TO $4

BILLION, AN ADDITIONAL $200 MILLION IN FEDERAL EXPENDITURES CAN BE AVOIDED, THEREBY REDUCING THE OVERALL COST OF GOVERNMENT SIGNIFICANTLY. ADDITIONAL PROCUREMENT VOLUMES OF $2 BILLION ARE TARGETED IN FISCAL YEAR 1984. THIS WILL RESULT IN ACHIEVING A 2-YEAR SAVINGS OF $600 MILLION. WHILE THE MEANS IN FSS BUSINESS EXPANSION, THE END IS USING TAX DOLLARS MORE ECONOMICALLY AND EFFICIENTLY BY ELIMINATING THE DUPLICATIVE AND EXPENSIVE PRACTICES OF FRAGMENTED PROCUREMENT IN FAVOR OF A CONSOLIDATED FEDERAL PROCUREMENT PROGRAM.

QUESTION: THE GOVERNMENT HAS AN INCREDIBLE STOCKPILE OF FURNITURE. I AM PLEASED TO SEE WE ARE RECYCLING SOME OF IT. IS THERE ANY EFFORT TO SELL IT? DO WE GARNER MUCH MONEY FROM SUCH SALES?

ANSWER: IN JANUARY 1983 GSA FORMED A "NO WASTE TASK FORCE" TO INSPECT AGENCY STORAGE SITES IN THE NATIONAL CAPITAL REGION (NCR) TO LOCATE IDLE AND EXCESS OFFICE FURNITURE. AS A RESULT, SIGNIFICANT QUANTITIES OF EXCESS PERSONAL PROPERTY HAVE BEEN REPORTED OR OTHERWISE MADE AVAILABLE TO GSA FOR FURTHER USE. A SIMILAR EFFORT WILL BE UNDERTAKEN IN OTHER GSA REGIONS IN THE NEAR FUTURE.

IN NCR, FURNITURE THAT BECOMES EXCESS IS MADE AVAILABLE TO THE FURNITURE RECLAMATION CENTER. IF SELETED, IT IS REHABILITATED BY A CONTRACTOR AND SOLD BACK TO THE FEDERAL AGENCIES AT PRICES SIGNIFICANTLY BELOW THE COST OF COMPARABLE NEW ITEMS. MANY ITEMS NOT SELECTED FOR RECLAMATION ARE SUITABLE FOR TRANSFER FOR FURTHER FEDERAL USE WITHOUT REPAIRS.

IF THERE IS NO FURTHER FEDERAL USE FOR EXCESS PERSONAL PROPERTY, IT IS DETERMINED SURPLUS TO THE GOVERNMENT AND IT IS THEN OFFERED TO THE STATES FOR DONATION FOR PUBLIC PURPOSES. SINCE MOST ALL STATE AND LOCAL PUBLIC ACTIVITIES NEED OFFICE FURNITURE, VERY LITTLE SURPLUS OFFICE FURNITURE AND EQUIPMENT SURVIVES TO BE OFFERED FOR SALE TO THE PUBLIC. THE ITEMS THAT ARE NOT SELECTED FOR UTILIZATION OR DONATION ARE GENERALLY VERY WORN AND IN POOR CONDITION. REMAINING PROPERTY IS OFFERED FOR SALE TO THE PUBLIC, BUT SINCE THE BETTER ITEMS ARE TRANSFERRED OR DONATED, THE PROCEEDS ARE COMMENSURATE WITH THE SMALL QUANTITIES AND POOR CONDITION OF THE OFFICE FURNITURE AND EQUIPMENT OFFERED FOR PUBLIC SALE.

SINCE THE OPENING OF THE FURNITURE RECLAMATION CENTER IN APRIL, ESTIMATED SAVINGS ARE AS FOLLOWS:

NET SAVINGS TO TAXPAYERS	$1,152,572
NET SAVINGS TO AGENCIES	$1,063,300

GENERAL SERVICES ADMINISTRATION

Question. The Mayor of the District of Columbia has proposed that the street lighting costs of the City government be shifted to the rate base of the Potomac Electric Power Company. We understand that this may result in a savings to GSA as well as the District government. What is your estimate of that savings on an annual basis?

Answer. The proposal is not that the street lighting costs of the District government be shifted to PEPCO's rate base, but be shifted to its revenue requirement. This means that the revenues now paid by the City for street lighting will be shared by all other customers of PEPCO, creating a revenue shortfall of approximately $12 million. When the shortfall is divided among the various classes, the impact upon the Federal Government will be about $3 million.

The $3 million will not be a savings; rather, it will be an additional cost to the Federal Government.

Questions Submitted by Senator James A. McClure

Senator McClure. Please provide a status of construction funding for the White House for FY's 1976 through 1984.

Mr. Carmen. We will be happy to provide that information for the record. (The information follows):

PRESIDENT'S PARK - WHITE HOUSE
STATUS OF MAJOR REPAIRS AND ALTERATIONS

Fiscal Year	Project Description	Obligations
1976	-	-
1977	-	-
1978	-	-
1979	Install Solar Hotwater Heating System	$ 35,000
	Roof Repairs	30,600
1980	Interior Painting	11,660
	Repairs to Interior Office Doors	25,000
	Handicapped Modifications	56,500
	Utility Conservation Analysis	24,000
	Landscaping and Sod	16,485
	Replace East and West Roof Terrace	215,500
	Tie in Power Lines	47,463
	Electrical and Mechanical Design Work	50,110
1981	Interior Painting	128,500
	Structural Repairs	162,966
	Continuation of East and West Roof Terrace Replacement	110,202
	Handicapped Modifications	14,045
	Renovate Utility Lines	469,707
1982	Interior Painting	99,400
	Structural Repairs	11,916
	Replace Steamlines	248,556
	Miscellaneous Repairs	25,000
1983	-	-
1984	-	-

Note: Funds for projects such as the above are appropriated as a lump-sum amount as part of the Repairs and Alterations activity of the Federal Buildings Fund.

Senator McClure. Please provide a copy of pertinent documents authorizing GSA involvement in the President's Park.

Mr. Carmen. We will be happy to do so.
(The information follows):

APR 2 1970

Chief Counsel - LBS

Authority of GSA to expend funds on White House

Assistant General Counsel - LB

The White House (also referred to as the Executive Mansion) is one of the properties listed in the National Register of Historic Places pursuant to the provisions of the National Historic Preservation Act of 1966, 80 Stat. 915 (16 U.S.C. 470); Vol. 34, No. 37, Federal Register, February 25, 1969, page 2585. The Director, National Park Service, Department of the Interior, serves as Chairman of the Committee for the Preservation of the White House. Executive Order No. 1145, March 7, 1964. The inventory of Real Property Owned by the United States as of June 30, 1968, Civil Agencies, lists the White House on page 203 as being under the National Park Service for administrative purposes. Any changes in or additions to the historical part of the White House are subject to the supervision of the National Park Service, and its Director is authorized to accept donations of furniture or furnishings for use in the White House (3 U.S.C. 110). The Director, National Park Service, is also authorized to accept, in the name of the United States, gifts of property or bequests of money for activities of the National Park Service (16 U.S.C. 6a).

Certain portions of the building, such as the East and West wings, have the attributes of public buildings in that they are primarily used for office space. However, the building does not technically qualify as a "public building" as that term is defined in section 13(1) of the Public Buildings Act of 1959, 73 Stat. 482, as amended (40 U.S.C. 612(1)). The pertinent portion of the definition identifies a "public building" as one "generally suitable for office or storage space or both for the use of one or more Federal agencies * * *." GSA, therefore, does not derive any function over the White House as the result of any provision of the Public Buildings Act of 1959, supra.

The West wing of the White House was originally constructed in 1902 under an appropriation to the War Department (32 Stat. 460), and was rebuilt in 1934. The East wing was constructed in 1942. The fact that GSA has had some responsibility for the repair, maintenance or improvement of some portions of the White House is illustrated by the inclusion in 1962 of the proposed alteration of the East and West wings in a prospectus (Project No. 08-0117) submitted to the Public Works Committees of Congress.

In 1933 the Director of Public Buildings and Public Parks of the National Capital was authorized by Congress to accept, on behalf of the United States, the fund raised by donations to cover the cost of constructing "in the West Terrace" (wing) of the White House, a swimming pool, and to request the cooperation and assistance of any department of the Government in constructing the pool (48 Stat. 22). The boarding over of the pool proper and the creation of office or press room space in that area, in view of the pool's physical location in the West wing, therefore, can be considered to be within the scope of GSA's White House activities. Available information indicates that by agreement with the National Park Service, GSA has some supervisory function over most of the office space in the White House. One of GSA's functions in this regard is the furnishing of janitorial services to the East and West wings.

In 1949, Congress created a Commission on Renovation of the Executive Mansion to accomplish modernization of the White House. The Commission was authorized to request and secure the advice or assistance of any Federal agency, to approve all construction plans, to determine the method of selecting the general contractor, and to supervise the construction work (63 Stat. 45). At the same time, Congress appropriated $2,000,000 to the Administrator of the Federal Works Agency (predecessor to GSA) for expenses incident to the renovation of the White House or for the construction of a separate residence for the President as may be determined by the Commission on Renovation of the Executive Mansion (63 Stat. 235). The Independent Offices Appropriation Act, 1951 (64 Stat. 705), authorized GSA the sum of $3,400,000 to complete the renovation, repair and modernization of the White House.

In 1952, the General Counsel of GSA sought to trace the legal and historical development of responsibility for the administration, maintenance and control over the White House. However, his memorandum of December 9, 1952, does not mention the two statutes cited above which made specific appropriations to the Federal Works Agency and GSA for the purpose of accomplishing White House renovation work. The aforementioned memorandum recommended that the whole matter of responsibility for the White House and its wings be clarified.

The participation of GSA in certain White House repair and improvement activity is evidenced by the remodelling of the "Fish Room" (located in the West wing). The room was converted into a permanent television studio including the installation of airconditioning, electronic, camera and control room equipment. The three major broadcasting networks donated the equipment and defrayed the cost of installation. The proposed arrangements were first reviewed and approved by the Office of Legal Counsel of the Department of Justice, which in a legal memorandum indicated that there is no legal objection to the installation of "special lighting facilities." This position was based at least in part on the authority of the Director of the National Park Service to accept gifts on behalf of the United States for the White House and on the further conclusion that the East and West wings are "under the supervision of the General Services Administration."

Since 1962 language has been employed in the annual appropriation acts covering GSA's repair and improvement function whereby GSA receives appropriations for the purpose of "* * * the repair, alteration, preservation, renovation, improvement, extension, equipment, and demolition of federally owned buildings * * *." (76 Stat. 723; 77 Stat. 432; 78 Stat. 647; 79 Stat. 526; 80 Stat. 669; 81 Stat. 345; 82 Stat. 941; and 83 Stat. 221). It is considered that these annual appropriation acts that give GSA authority to "* * * alter other federally owned buildings * * *" is adequate legal authority for GSA to perform work of this character in the White House. Congress appropriates funds each year to the Executive Office of the President "For the care, maintenance, repair and alteration, refurnishing, improvement, heating and lighting * * *" of the Executive Mansion (77 Stat. 64; 78 Stat. 373; 79 Stat. 202; 82 Stat. 190; 83 Stat. 116).

As a matter of practice, if work is performed by GSA in either the East or West wings, the expense incurred is paid from GSA funds. If work is performed by GSA in the White House proper (or on the grounds), the National Park Service reimburses GSA.

Congress has authorized the detail to the White House Office of employees of the Executive departments for temporary assistance (62 Stat. 679; 3 U.S.C. 107). This law provides authority for GSA workmen to be detailed to assist in the performance of maintenance and repair work in the White House.

The Commission on the Renovation of the Executive Mansion observed in its report upon completion of the renovation and modernization of the White House, "The supervisory care of the building changed numerous times by executive order from one government agency to another." Commission Report (1952), page 31. It appears at the present time that there are at least two Government agencies exercising some degree of control and responsibility over the repair, maintenance and installation of improvements in the White House proper or its two wings.

WEWhalen

W. E. WHALEN
Chief Counsel
Public Buildings Division

CONCLUSION OF HEARINGS

Senator **Abdnor**. Thank you. We appreciate all of our witnesses today and, as I said earlier at the outset, this does conclude our hearings on the 1984 budget. We think they have been very valuable to us and helpful as we try to approach some kind of a figure and a budget for the various agencies we cover.

There being no other business, the subcommittee will stand in recess, subject to the call of the Chair. Thank you.

Mr. **Carmen**. Thank you.

[Whereupon, at 3:25 p.m., Thursday, April 28, the hearings were concluded, and the subcommittee was recessed, subject to the call of the Chair.]

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